

STRATASYS LTD.  
Form 20-F  
March 07, 2019  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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, 2018**

OR

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

OR

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

Date of event requiring this shell company report .....

**Commission file number: 001-35751**

**STRATASYS LTD.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**Israel**

(Jurisdiction of incorporation or Organization)

<b>c/o Stratasy, Inc.</b>	<b>1 Holtzman Street,</b>
<b>7665 Commerce Way</b>	<b>Science Park</b>
<b>Eden Prairie,</b>	<b>P.O. Box 2496</b>
<b>Minnesota 55344</b>	<b>Rehovot, Israel</b>
	<b>76124</b>

(Address of Principal Executive Offices)

**S. Scott Crump, Chairman of Executive Committee**

**Tel: (952) 937-3000**

**E-mail: scott.crump@stratasy.com**

**7665 Commerce Way**

**Eden Prairie, Minnesota 55344**

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

Edgar Filing: STRATASYS LTD. - Form 20-F

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

---

**Table of Contents**

Title of each class	Name of each exchange on which registered
<b>Ordinary Shares, nominal value NIS 0.01 per share</b>	<b>NASDAQ Global Select Market</b>
Securities registered or to be registered pursuant to Section 12(g) of the Act.	
<b>None</b>	
(Title of Class)	

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

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:

**53,880,751 Ordinary Shares, NIS 0.01 nominal value, at December 31, 2018.**

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 “accelerated filer,” large accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Emerging Growth Company

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US 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

Table of Contents

## TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	1
<u>USE OF TRADE NAMES</u>	2
<u>CERTAIN TERMS AND CONVENTIONS</u>	2
<b>PART I</b>	
<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.</u>
	3
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE.</u>
<u>ITEM 3.</u>	<u>KEY INFORMATION.</u>
	3
<u>ITEM 4.</u>	<u>INFORMATION ON THE COMPANY.</u>
	18
<u>ITEM 4A.</u>	<u>UNRESOLVED STAFF COMMENTS.</u>
	36
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS.</u>
	36
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.</u>
	54
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.</u>
<u>ITEM 8.</u>	69
<u>ITEM 9.</u>	<u>FINANCIAL INFORMATION.</u>
<u>ITEM 10.</u>	70
	<u>THE OFFER AND LISTING.</u>
	72
	<u>ADDITIONAL INFORMATION.</u>
	72
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>
	83
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.</u>
	84
<b>PART II</b>	
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.</u>
	84
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.</u>
	84
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES.</u>
	85
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT.</u>
<u>ITEM 16B.</u>	85
	<u>CODE OF ETHICS.</u>
	85
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES.</u>
	86
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.</u>
	86
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.</u>
	86

<u>ITEM 16F.</u>	<u>CHANGE IN REGISTRANT'S</u>	86
<u>ITEM 16G.</u>	<u>CERTIFYING ACCOUNTANT.</u>	86
<u>ITEM 16H.</u>	<u>CORPORATE GOVERNANCE.</u>	87
	<u>MINE SAFETY DISCLOSURE.</u>	
	<u>PART III</u>	
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS.</u>	87
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS.</u>	87
<u>ITEM 19.</u>	<u>EXHIBITS.</u>	89
<u>SIGNATURES.</u>		90

---

**Table of Contents**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain information included or incorporated by reference in this annual report 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, and Section 21E of the Securities Exchange Act of 1934. 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 intend, expect, project, believe or anticipate will or may occur in the future.

Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We have based these forward-looking statements on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

Important factors that could cause actual results, developments and business decisions to differ materially from those anticipated in these forward-looking statements include, among other things:

the extent of our success at introducing new or improved products and solutions that gain market share;

the extent of growth of the 3D printing market generally;

changes in our overall strategy, including as related to any reorganization activities and our capital expenditures;

the impact of shifts in prices or margins of the products that we sell or services we provide;

the impact of competition and new technologies;

impairments of goodwill or other intangible assets in respect of companies that we acquire;

the extent of our success consummating acquisitions of, or investments in, new business, technologies, products or services

global market, political and economic conditions, and in the countries in which we operate in particular;

government regulations and approvals;

litigation and regulatory proceedings;

infringement of our intellectual property rights by others (including for replication and sale of consumables for use in our systems), or infringement of others’ intellectual property rights by us;

the extent of our success at maintaining our liquidity and financing our operations and capital needs;

impact of tax regulations on our results of operations and financial condition; and

any additional factors referred to in Item 3.D “Key Information - Risk Factors”, Item 4 “Information on the Company”, and Item 5 “Operating and Financial Review and Prospects”, as well as in this annual report generally.

Readers are urged to carefully review and consider the various disclosures made throughout this annual report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Edgar Filing: STRATASYS LTD. - Form 20-F

Any forward-looking statements in this annual report are made as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Table of Contents**

**USE OF TRADE NAMES**

Unless the context otherwise indicates or requires, “Stratasys,” “Objet,” “PolyJet,” “Connex,” “J750,” “J735,” “FDM,” “Fortus,” “F900,” “Fortus 900mc,” “450mc,” “Fortus 380mc,” “F123 Series,” “F370,” “Stratasys Direct Manufacturing,” “SDM,” “GrabCAD,” “GrabCAD Print,” “GrabCAD Community,” “FDM Composite,” “MakerBot,” “Method,” “Thingiverse,” “Replicator,” “LPM” and all product names and trade names used by us in this annual report are our trademarks and service marks, which may be registered in certain jurisdictions. Although we have omitted the “®” and “TM” trademark designations for such marks in this annual report, all rights to such trademarks and service marks are nevertheless reserved. Furthermore, the Stratasys Signet design logo is our property. This annual report contains additional trade names, trademarks and service marks of other companies. 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 TERMS AND CONVENTIONS**

In this annual report, unless the context otherwise requires:

references to “Stratasys,” “our company,” “the Company,” “the combined company,” “the registrant,” “we,” “us,” and “our” refer to Stratasys Ltd. (formerly known as Objet Ltd.), and its consolidated subsidiaries;

references to “Objet” generally refer to Objet Ltd. and its consolidated subsidiaries prior to the effective time of the Stratasys, Inc.- Objet Ltd. merger on December 1, 2012. We may also use “Objet” to refer to the line of products previously sold by Objet Ltd. and the related current, ongoing operations that have continued following the Stratasys, Inc.-Objet Ltd. merger.

references to “Stratasys, Inc.” generally refer to Stratasys, Inc., a Delaware corporation, and its consolidated subsidiaries prior to the effective time of the Stratasys, Inc.-Objet Ltd. merger, but sometimes (as the context requires) refer to the current, ongoing operations of our Stratasys, Inc. subsidiary;

references to “ordinary shares,” “our shares” and similar expressions refer to our Ordinary Shares, nominal 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 the “articles” or “amended articles” are to our Amended and Restated Articles of Association, which became effective upon the closing of the Stratasys, Inc.- Objet Ltd. merger, as subsequently amended;

references to the “Companies Law” are to Israel’s Companies Law, 5759-1999, as amended;

references to the “Securities Act” are to the Securities Act of 1933, as amended;

references to the “Exchange Act” are to the 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.



**Table of Contents****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 table sets forth our selected consolidated financial data. The below historical selected consolidated statement of operations data for the years 2018, 2017 and 2016, and the selected consolidated balance sheet data at December 31, 2018 and 2017, have been derived from our audited consolidated financial statements set forth elsewhere in this annual report. The below selected consolidated statements of operations data for 2015 and 2014, and the selected consolidated balance sheet data as of December 31, 2016, 2015 and 2014, have been derived from our previously reported audited consolidated financial statements, which are not included in this annual report. The selected financial data should be read in conjunction with our consolidated financial statements and accompanying notes and "Operating and Financial Review and Prospects" appearing in Item 5 of this annual report, and are qualified entirely by reference to such consolidated financial statements. Our historical results set forth herein are not necessarily indicative of our future results.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(U.S. \$ in thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Net sales	\$ 663,237	\$ 668,362	\$ 672,458	\$ 695,995	\$ 750,129
Gross profit	325,224	322,777	317,306	102,172	362,394
Research and development expense, net	98,964	96,237	97,778	122,360	82,270
Selling, general and administrative expense	235,107	255,685	307,113	434,619	351,993
Goodwill impairment	-	-	-	942,408	102,470
Change in fair value of obligations in connection with acquisitions	-	1,378	(872)	(23,671)	(26,150)
Operating loss	(8,847)	(30,523)	(86,713)	(1,373,544)	(148,189)
Net loss	(11,225)	(40,459)	(77,621)	(1,373,511)	(119,470)
Net loss attributable to Stratasys Ltd.	(10,964)	(39,981)	(77,219)	(1,372,835)	(119,420)
Net loss per basic share attributable to Stratasys Ltd.	(0.22)	(0.75)	(1.48)	(26.64)	(2.39)
Weighted average basic shares outstanding	53,751	52,959	52,330	51,592	50,019
Net loss per diluted share attributable to Stratasys Ltd.	(0.22)	(0.75)	(1.48)	(26.64)	(2.39)
Weighted average diluted shares outstanding	53,751	52,959	52,582	51,592	50,019
<b>Balance Sheet Data:</b>					
Working capital*	508,390	451,614	388,428	374,346	546,062
Total assets*	1,388,254	1,379,750	1,366,049	1,414,356	2,899,107
Equity	1,142,115	1,132,507	1,135,998	1,188,801	2,531,239

\*We adopted a new accounting guidance which requires classification of deferred tax assets and liabilities as noncurrent on the balance sheet on a prospective basis. All deferred taxes are classified as non-current on our balance sheets commencing December 31, 2015. Prior periods were not retrospectively adjusted.

**B. Capitalization and Indebtedness.**

Not applicable.

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

Not applicable.

**Table of Contents**

**D. Risk Factors.**

*You should carefully consider the risks described below, together with all of the other information in this annual report on Form 20-F. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of these risks actually materializes, our business, financial condition and results of operations could suffer and the price of our shares could decline.*

**Risks related to our business and financial condition**

***We may not be able to introduce new 3D printers, high-performance systems and consumables acceptable to customers or to improve the technology, software or consumables used in our current systems in response to changing technology and end-user needs.***

We derive most of our revenues from the sale of additive manufacturing systems and related consumables. The markets in which we operate are subject to rapid and substantial innovation and technological change, mainly driven by technological advances and end-user requirements and preferences, as well as the emergence of new standards and practices. Our ability to compete in these markets depends, in large part, on our success in enhancing our existing products and developing new additive manufacturing systems and new consumables that will address the increasingly sophisticated and varied needs of prospective end-users, and respond to technological advances and industry standards and practices on a cost-effective and timely basis or otherwise gain market acceptance.

Even if we successfully enhance our existing systems or create new systems, it is likely that new systems and technologies that we develop will eventually supplant our existing systems or that our competitors will create systems that will replace our systems. As a result, any of our products may be rendered obsolete or uneconomical by our or others' technological advances.

***Our operating results and financial condition may fluctuate.***

The operating results and financial condition of our company may fluctuate from quarter to quarter and year to year and are likely to continue to vary due to a number of factors, many of which will not be within our control. If our operating results do not meet the guidance that we provide to the market place or the expectations of securities analysts or investors, the market price of our ordinary shares will likely decline. Fluctuations in our operating results and financial condition may be due to a number of factors, including those listed below and those identified throughout this "Risk Factors" section:

the degree of market acceptance of our products and services;

the mix of products and services that we sell during any period;

the geographic distribution of our sales;

our responses to price competition;

long sales cycles;

changes in our overall strategy, such as related to our cost reduction and reorganization activities and our capital expenditures;

unforeseen liabilities or difficulties in integrating our acquisitions or newly acquired businesses;

changes in the amount that we spend to develop, acquire or license new products, consumables, technologies or businesses;

changes in the amounts that we spend to promote our products and services;

changes in the cost of satisfying our warranty obligations and servicing our installed base of systems;

delays between our expenditures to develop and market new or enhanced systems and consumables and the generation of sales from those products;

delays in orders of our products from period to period due to outside factors, such as U.S. government shutdowns, which may delay orders by U.S. government agencies or other end-users whose business activities are heavily dependent on U.S. government agency contracts;

## Edgar Filing: STRATASYS LTD. - Form 20-F

development of new competitive products and services by others;

difficulty in predicting sales patterns and reorder rates that may result from multi-tier distribution strategy associated with new product categories such as entry level desktop 3D printers;

impairment charges that we may be required to record in respect of our goodwill and/or other long-lived assets;

potential cyber attacks against, or other breaches to, our information technologies systems;

litigation or threats of litigation, including intellectual property claims by third parties;

changes in accounting rules and tax laws;

tax benefit that we may record due to partial or full release of valuation allowances against our deferred tax assets;

general economic and industry conditions that affect end-user demand and end-user levels of product design and manufacturing;

changes in dollar-shekel and dollar-Euro exchange rates that affect the value of our net assets, revenues and expenditures from and/or relating to our activities carried out in those currencies; and

## **Table of Contents**

Due to all of the foregoing factors, and the other risks discussed in this annual report, you should not rely on quarter-over-quarter and year-over-year comparisons of our operating results as an indicator of our future performance.

***If demand for our products and services does not grow as expected, our revenues may stagnate or decline and our profitability may be adversely affected.***

The commercial marketplace for additive manufacturing, which was once dominated by conventional methods that do not involve 3D printing technology, has been undergoing a shift towards 3D printing. This is true with respect to prototype development, and to a growing extent, with respect to direct digital manufacturing, or DDM, as an alternative to traditional manufacturing. If the commercial marketplace does not continue to transform towards the broader acceptance of 3D printing and DDM as alternatives for prototype development and traditional manufacturing, or if it adopts 3D printing based on technologies other than the technologies that we use, we may not be able to increase or sustain current or future levels of sales of our products and related materials and services, and our results of operations may be adversely affected as a result.

***Declines in the prices of our products and services, or in our volume of sales, together with our relatively inflexible cost structure, may adversely affect our financial results.***

Our business is subject to price competition. Such price competition may adversely affect our ability to maintain the same degree of profitability, especially during periods of decreased demand. Decreased demand also adversely impacts the volume of our systems sales. If our business is not able to offset price reductions resulting from these pressures, or decreased volume of sales due to contractions in the market, by improved operating efficiencies and reduced expenditures, then our operating results will be adversely affected.

Certain of our operating costs are fixed and cannot readily be reduced, which diminishes the positive impact of our reorganization programs on our operating results. To the extent the market for our products slows, or the 3D printing market contracts, we may be faced with excess manufacturing capacity and excess related costs that cannot readily be reduced, which will adversely impact our results of operations.

***To the extent that other companies are successful in developing or marketing consumables for use in our systems, our revenues and profits would likely be adversely affected.***

We sell a substantial portion of the consumables used in our systems. We attempt to protect against replication of our proprietary consumables through patents and trade secrets and provide that warranties on those systems may be invalid if customers use non-genuine consumables that cause damage to the printer. Other companies have developed and sold, and may continue to develop and sell, consumables that are used with our systems, which may reduce our consumables sales and impair our overall revenues and profitability.

***If our product mix shifts too far into lower margin products or our revenues mix shifts significantly towards our AM services business, our profitability could be reduced.***

Sales of certain of our existing products have higher margins than others. For instance, our high-end systems and related consumables yield a greater gross margin than our entry-level systems. As some of the sales of our entry-level systems may displace sales of our other systems. If sales of our entry-level desktop 3D printers have the effect of reducing sales of our higher margin products, or if for any other reason, our product mix shifts too far into lower margin products, and we are not able to sufficiently reduce the engineering, production and other costs associated with those products or substantially increase the sales of those products, our profitability could be reduced. A similar negative impact on our gross margins could result due to a significant shift towards revenues generated by our AM parts service business, Stratasys Direct Manufacturing, and which are characterized by lower margins relative to our products.

***The markets in which we participate (especially the lower-end market) are competitive. Our failure to compete successfully could cause our revenues and the demand for our products to decline.***

We compete with a wide variety of producers of systems that create models, prototypes, other 3D objects and end-use parts as well as producers of materials and services for these systems, including both additive and subtractive manufacturing methodologies, such as metal extrusion, computer-controlled machining and manual modeling techniques. Our principal competition currently consists of other manufacturers of systems for prototype development and customized manufacturing processes, including 3D Systems Corporation, HP, Carbon and Markforged, and, with respect to our desktop 3D printers, a multitude of companies such as Markforged, Ultimaker, Formlabs and others. Competition with our desktop 3D printers and our other lower-end products has intensified and creates a challenging business environment. For our broadened AM parts and services business, our chief competitors consist of 3D Systems Corporation, Materialise, Protolabs and many other smaller service providers. We may face additional competition in the future from other new entrants into the marketplace, including companies that may have significantly greater resources than we have that may become new market entrants or may enter through acquisition or strategic or marketing partnerships with current competitors.

## Edgar Filing: STRATASYS LTD. - Form 20-F

Some of our current and potential competitors have longer operating histories and more extensive name recognition than we have and may also have greater financial, marketing, manufacturing, distribution and other resources than we have. Current and future competitors may be able to respond more quickly to new or emerging technologies and changes in end-user demands and to devote greater resources to the development, promotion and sale of their products than we can. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable or less competitive (whether from a price perspective or otherwise). We cannot assure that we will be able to maintain or enhance our current competitive position or continue to compete successfully against current and future sources of competition.

**Table of Contents**

***If additional goodwill or other intangible assets that we have recorded become impaired, we could have to take further significant charges against earnings***

As of December 31, 2018, the carrying value of all of our goodwill and other intangible assets was approximately \$493.1 million compared to a carrying value of \$529.2 million as of December 31, 2017.

Under accounting principles generally accepted in the United States of America, or GAAP, we are required to review goodwill for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

We currently have approximately \$386 million of goodwill allocated to our Stratasys-Objet reporting unit, which could be subject to further impairment in the future, which impairment could result in further significant charges against our earnings and could have a material adverse effect on our results of operations. For further information, please see Note 7 and Note 8 to our consolidated financial statements included elsewhere in this annual report.

***As part of our growth strategy, we have sought, and will continue to seek, to acquire or to make investments in other businesses, patents, technologies, products or services. Our failure to do so successfully (including, if applicable, to finance such acquisitions or investments on favorable terms and to avoid adverse financial consequences) may adversely affect our financial results.***

As part of our growth strategy, we expect to continue to regularly evaluate acquisitions or investments to expand our suite of products and services. Even if we are able to identify a suitable acquisition or investment, we may not be able to consummate any such transaction if we cannot reach an agreement on favorable terms or if we lack sufficient resources to finance the transaction on our own and cannot obtain financing at a reasonable cost or if regulatory authorities prevent such transaction from being consummated. If we proceed with a particular acquisition, we may have to use cash, issue new equity securities with dilutive effects on existing shareholders, incur indebtedness, assume contingent liabilities or amortize assets or expenses in a manner that might have a material adverse effect on our financial condition, results of operations or liquidity. Acquisitions will also require us to record certain acquisition-related costs and other items as current period expenses, which would have the effect of reducing our reported earnings in the period in which an acquisition is consummated. In addition, we could also face unknown liabilities or write-offs due to our acquisitions, which could result in a significant charge to our earnings in the period in which they occur. We will also be required to record goodwill or other long-lived asset impairment charges (if any) in the periods in which they occur, which could result in a significant charge to our earnings in any such period. For further information on our quantitative assessment for goodwill impairment we performed in 2018, please see Note 7 and Note 8 to our consolidated financial statements included elsewhere in this annual report.

***Our operations could suffer if we are unable to attract and retain key management or other key employees.***

Our success depends upon the continued service and performance of our senior management and other key personnel. Our executive team is critical to the management of our business and operations, as well as to the development of our strategy. The loss of the services of any members of our senior executive team could delay or prevent the successful implementation of our strategy, or our commercialization of new applications for our systems or other products, or could otherwise adversely affect our ability to manage our company effectively and carry out our business plan. Members of our senior management team may resign at any time, as was the case at the start of June 2018, when our then chief executive officer, Ilan Levin, resigned effective immediately. Since that time, we have utilized a newly-created oversight committee of our board of directors to help support the management of our company during the interim period, until a successor is appointed. The committee is comprised of our Vice Chairman of the Board, Executive Director and former CEO, David Reis, along with additional directors Scott Crump, previous Chairman and founder, and Dov Ofer. We continue to search for Mr. Levin's permanent successor.

High demand exists for senior management and other key personnel (including scientific, technical and sales personnel) in the additive manufacturing, or AM, industry, and there can be no assurance that we will be able to retain our current key personnel. We experience intense competition for qualified personnel. While we intend to continue to provide competitive compensation packages to attract and retain key personnel, some of our competitors for these employees have greater resources and more experience, 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 and/or product development activities, we may be unable to achieve the synergies expected from mergers and acquisitions that we may effect from time to time, or to develop and commercialize new products or new applications for existing products. Furthermore, possible shortages of key personnel, including engineers, in the regions surrounding our Minnesota, New York, California, Texas, Boston or Israeli facilities could require us to pay more to hire and retain key personnel, thereby increasing our costs.

***Defects in new products or in enhancements to our existing products could give rise to product returns or product liability, warranty or other claims that could result in material expenses, diversion of management time and attention, and damage to our reputation.***

## Edgar Filing: STRATASYS LTD. - Form 20-F

Our products are complex and may contain defects or experience failures or unsatisfactory performance due to any number of issues in design, fabrication, packaging, materials, and/or use within a system. These defects or errors could result in significant warranty, support and repair or replacement costs, cause us to lose market share and divert the attention of our engineering personnel from our product development efforts to find and correct the issue.

**Table of Contents**

This risk of product liability claims may also be greater due to the use of certain hazardous chemicals used in the manufacture of certain of our products. Those hazardous chemicals fall within three different categories (with several of the chemicals falling within multiple categories): irritants, harmful chemicals and chemicals dangerous for the environment. In addition, we may be subject to claims that our 3D printers have been, or may be, used to create parts that are not in compliance with legal requirements or that intellectual property posted by third parties on our Thingiverse and GrabCAD websites infringes the intellectual property rights of others.

Any claim brought against us, regardless of its merit, could result in material expense, diversion of management time and attention, and damage to our reputation, and could cause us to fail to retain existing end-users or to attract new end-users. Although we maintain product liability insurance, such insurance is subject to significant deductibles and there is no guarantee that such insurance will be available or adequate to protect against all such claims, or we may elect to self-insure with respect to certain matters. Costs or payments made in connection with warranty and product liability claims and product recalls or other claims could materially affect our financial condition and results of operations.

***Our AM services business, offering parts used as prototypes, benchmarks and end-use parts in general, and in the case of end-use parts, our sales to customers in the aerospace, medical and automotive industries, in particular, makes us more susceptible to product and other liability claims, which characterize operations in those industries. Sales of our 3D printing systems to customers in the aerospace industry similarly carry with them potential liability claims if the parts produced by those systems do not function properly. Any such claims that are not adequately covered by insurance or for which insurance is not available may adversely affect our results of operations and financial condition.***

Our digital manufacturing business, Stratasys Direct Manufacturing, produces AM parts, which are used by our customers as prototypes, benchmarks and end-use parts. In particular, we provide these additive manufacturing parts and related services to customers in the aerospace, medical and automotive industries. The sale of end-use parts and the provision of related services in general, and to customers in the foregoing industries in particular, exposes us to possible claims for property damage and personal injury or death, which may result from the use of these end-use parts. We may be potentially liable, in significant amounts, if an aircraft, automotive or medical part, component, or accessory or any other aviation, automotive or medical product that we have sold, produced or repaired fails, or if an aircraft or automobile for which our subsidiaries have provided services or in which their parts are installed crashes, and the cause can be linked to those parts or cannot be determined. A similar risk arises in connection with sales of our 3D printing systems to customers in the aerospace industry to the extent that the parts produced by those printers do not function properly and are responsible for damages. Our SDM service and our company in general carry liability insurance in amounts that we believe are adequate for their risk exposure and commensurate with industry norms. While we intend to monitor our insurance coverage as our additive manufacturing services business and our overall business continue to grow, claims may arise in the future, and that insurance coverage may not be adequate or available to protect our consolidated company in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage for our AM services business and our overall business in the future at an acceptable cost. Any liability claim against our AM services business or our overall business that is not covered by adequate insurance could adversely affect our consolidated results of operations and financial condition.

***If our relationships with suppliers for our products and services, especially with single source suppliers of components of our products, were to terminate or our manufacturing arrangements were to be disrupted, our business could be interrupted.***

We purchase components and sub-assemblies for our systems, raw materials that are used in our consumables, and AM systems, component parts and raw materials for our Stratasys Direct Manufacturing services business, from third-party suppliers, some of whom may compete with us. While there are several potential suppliers of most of these component parts, sub-assemblies and raw materials that we use, we currently choose to use only one or a limited number of suppliers for several of these components and materials. Furthermore, the suppliers of AM systems and materials used in our SDM parts service may refuse to sell us additional AM systems or component parts and materials for AM systems that our SDM service uses. Our reliance on a single or limited number of vendors involves a number of risks, including:

potential shortages of some key components;

product performance shortfalls, if traceable to particular product components, since the supplier of the faulty component cannot readily be replaced;

discontinuation of a product or certain materials on which we rely;

potential insolvency of these vendors; and

reduced control over delivery schedules, manufacturing capabilities, quality and costs.

In addition, we require any new supplier to become “qualified” pursuant to our internal procedures. The qualification process involves evaluations of varying durations, which may cause production delays if we were required to qualify a new supplier unexpectedly. We generally assemble our systems and parts based on our internal forecasts and the availability of raw materials, assemblies, components and finished goods that are



supplied to us by third parties, which are subject to various lead times. If certain suppliers were to decide to discontinue production of an assembly, component or raw material that we use, the unanticipated change in the availability of supplies, or unanticipated supply limitations, could cause delays in, or loss of, sales, increased production or related costs and consequently reduced margins, and damage to our reputation. If we were unable to find a suitable supplier for a particular component, material or compound, we could be required to modify our existing products or the end-parts that we offer to accommodate substitute components, material or compounds. While we have introduced periodic risk analysis internally concerning our sourcing (particularly concerning raw materials), which has increased the levels of our inventories, there is no guarantee that will sufficiently protect us if we suddenly lose access to supplies unexpectedly.

## **Table of Contents**

In particular, we rely on a sole supplier, Ricoh Printing Systems America, Inc., or Ricoh, for the printer heads for our PolyJet 3D printers. Under the terms of our agreement with Ricoh, we purchase printer heads and associated electronic components, and receive a non-transferable, non-exclusive right to assemble, use and sell these purchased products under Ricoh's patent rights and trade secrets. Due to the risk of a discontinuation of the supply of Ricoh printer heads and other key components of our products, we maintain excess inventory of those printer heads and other components. However, if our forecasts exceed actual orders, we may hold large inventories of slow-moving or unusable parts or raw materials, which could result in inventory write offs or write downs and have an adverse effect on our cash flow, profitability and results of operations. See "Item 4. Information on the Company—Business Overview—Manufacturing and Suppliers—Inventory and Suppliers—Rico Agreement" for further discussion of this agreement.

***Discontinuation of operations at our manufacturing sites could prevent us from timely filling customer orders and could lead to unforeseen costs for us.***

We assemble and test the systems that we sell, and, in many cases, produce consumables for our systems, at single facilities in various locations that are specifically dedicated to separate categories of systems and consumables. We similarly rely on a single facility for assembly of the component parts and materials for AM systems that our SDM service uses. Because of our reliance on all of these production facilities, a disruption at any of those facilities could materially damage our ability to supply 3D printers, other systems or consumable materials to the marketplace in a timely manner. Depending on the cause of the disruption, we could also incur significant costs to remedy the disruption and resume product shipments. Such disruptions may be caused by, among other factors, earthquakes, fire, flood and other natural disasters. While we plan to adopt an extensive disaster recovery plan in the near future, there are no assurances that will adequately protect us from any significant disruptions at our manufacturing sites. Accordingly, any such disruption could result in a material adverse effect on our revenue, results of operations and earnings, and could also potentially damage our reputation.

***A loss of, or reduction in revenues from, a significant number of our resellers and our independent sales agents would impair our ability to sell our products and services and could reduce our revenues and adversely impact our operating results.***

We rely heavily on our network of resellers and independent sales agents to sell and (in the case of resellers) to service our products for end-users in their respective geographic regions. These resellers and sales agents may not be as effective in selling our products or servicing our end-users as we are. Further, if our relationships with a significant number of these resellers and sales agents were to be terminated or if a significant number of these resellers and sales agents would otherwise fail or refuse to sell our products, we may not be able to find replacements that are as qualified or as successful in a timely manner, if at all. If these resellers and independent sales agents do not perform as anticipated or if we are unable to find qualified and successful replacements, our sales will suffer, which would have an adverse effect on our revenues and operating results. Additionally, a default by one or more resellers that have a significant receivables balance could have an adverse financial impact on our financial results.

***Our business model is predicated in part on building an end-user base that will generate a recurring stream of revenues through the sale of our consumables and service contracts. If that recurring stream of revenues does not develop as expected, or if our business model changes as the industry evolves, our operating results may be adversely affected.***

Our business model is dependent in part on our ability to maintain and increase sales of our proprietary consumables and service contracts as they generate recurring revenues. Existing and future end-users of our systems may not purchase our consumables or related service contracts at the same rate at which end-users currently purchase those consumables and services. In addition, our entry-level systems generally use a lower volume of consumables relative to our higher end systems. If our current and future end-users purchase a lower volume of our consumables or service contracts, or if our entry level systems represent an increasing percentage of our future installed base mix uses less consumables than our current installed base, our recurring revenue stream relative to our total revenues would be reduced, and our operating results would be adversely affected.

***Global economic, political and social conditions may adversely impact our sales.***

Uncertainty with respect to the global economy, difficulties in the financial services sector and credit markets, geopolitical uncertainties and other macroeconomic factors all affect spending behavior of potential end-users of our products and services. The uncertain prospects for economic growth in some of the regions in which we sell our products may cause end-users to delay or reduce technology purchases. We also face risks that may arise from financial difficulties experienced by our end-users, suppliers and distributors, which may be exacerbated by continued uncertainty in the global economy or by other geopolitical factors, including:

the possibility of an ongoing U.S.- China trade war may impact the cost of raw materials, finished products or components used in our products, and our ability to sell our products in China;

## Edgar Filing: STRATASYS LTD. - Form 20-F

extended U.S. federal government shutdowns (resulting from the failure to pass budget appropriations or adopt continuing funding resolutions) may delay orders of our products by U.S. government agencies or other end-users whose business activities are heavily dependent on U.S. government agency contracts;

end-user demand for products and manufacturing activity levels may be reduced;

distributors and end-users may be unable to obtain credit financing to finance purchases of our products;

suppliers may be unable to obtain credit financing to finance purchases of sub-assemblies used to build components of products or purchases of raw materials to produce consumables;

end-users or distributors may face financial difficulties or may become insolvent, which could lead to our inability to obtain payment for our products; and

key suppliers of raw materials, finished products or components used in our products and consumables may face financial difficulties or may become insolvent, which could lead to disruption in the supply of systems, consumables or spare parts to our end-users.

**Table of Contents**

***Our existing and planned international operations currently expose us and will continue to expose us to additional market and operational risks, and failure to manage these risks may adversely affect our business and operating results.***

We expect to derive a substantial percentage of our sales from international markets. We derived 38% of our revenues in 2018 from countries outside the Americas. Accordingly, we face significant operational risks from doing business internationally, including:

fluctuations in foreign currency exchange rates;

potentially longer sales and payment cycles;

potentially greater difficulties in collecting accounts receivable;

potentially adverse tax consequences;

reduced protection of intellectual property rights in certain countries, particularly in Asia and South America;

difficulties in staffing and managing foreign operations;

laws and business practices favoring local competition;

costs and difficulties of customizing products for foreign countries;

compliance with a wide variety of complex foreign laws, treaties and regulations;

tariffs, trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets; and

being subject to the laws, regulations and the court systems of many jurisdictions.

Our failure to manage the market and operational risks associated with our international operations effectively could limit the future growth of our business and adversely affect our operating results.

***We are subject to environmental laws and export control laws due to the import and export of our products, as well as environmental, health and safety laws and regulations related to our operations and the use of our systems, which could subject us to compliance costs and/or potential liability in the event of non-compliance.***

The export of our products internationally from our production facilities subjects us to environmental laws and regulations concerning the import and export of chemicals and hazardous substances 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.

The export of our products that are manufactured in the United States is also subject specifically to export controls governing dual-use products under the new U.S. Export Controls Act of 2018, which may potentially lead to the imposition of greater restrictions on our ability to export those products and penalties if we fail to comply with those restrictions.

We are furthermore subject to extensive environmental, health and safety laws, regulations and permitting requirements in multiple jurisdictions due to our use of chemicals and production of waste materials as part of our operations and in connection with the operation of our systems by our customers. These laws, regulations and requirements (which include the Directive on Waste Electrical and Electronic Equipment of the European Union (EU) and the EU Directive on Restriction of Use of Certain Hazardous Substances) govern, among other things, the generation, use, storage, registration, handling and disposal of chemicals and waste materials, the presence of specified substances in electrical products, the emission and discharge of hazardous materials into the ground, air or water, the cleanup of contaminated sites, including any contamination that results from spills due to our failure to properly dispose of chemicals and other waste materials and the health and safety of our employees. Under these laws, regulations and requirements, we could also be subject to liability for improper disposal of chemicals and waste materials, including those resulting from the use of our systems and accompanying materials by end-users. These or future laws and regulations could potentially require the expenditure of significant amounts for compliance and/or remediation. If our operations 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 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,

## Edgar Filing: STRATASYS LTD. - Form 20-F

including those relating to personal injury (including exposure to hazardous substances that we generate, use, store, handle, transport, manufacture or dispose of), property damage or contribution claims. Some environmental laws allow for strict, joint and several liabilities for remediation costs, regardless of fault. We may be identified as a potentially responsible party under such laws. Such developments could have a material adverse effect on our business, financial condition and results of operations.

**Table of Contents**

***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 providers. 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.

***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 from competing directly with us or working for our competitors or clients for a limited period after they cease working for us. 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 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 confidential commercial information or the protection of its intellectual property. If we cannot demonstrate that such interests will be harmed, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or consultants and our ability to remain competitive may be diminished. In addition in California, where many employees of our SDM parts service are located, non-competition agreements with employees are generally unenforceable after termination of employment.

***As a public company with significant operations in several countries, we are subject to regulation and must comply with reporting and other requirements in a number of jurisdictions and, to the extent that regulatory authorities assert that we are not in compliance, we could be subject to sanctions which, if material, could materially and adversely affect our business.***

As a public company with significant operations in Israel, the United States, Europe and many other countries, we are subject to regulation and must comply with reporting and other requirements in a number of jurisdictions. In particular, we are subject to the rules and regulations of the SEC and FINRA, which may elect from time to time to review or investigate our operations, various aspects of our financial statements, our disclosure practices and other matters. As such reviews progress, the regulating agencies may determine that we are and have been in compliance with applicable rules, or they may determine to pursue enforcement actions or other sanctions against us for alleged noncompliance.

In addition to U.S.-based regulations on our operations, our European activities are subject to the new European Union General Data Protection Regulation, or GDPR, which has created additional compliance requirements for us. GDPR broadens the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches within 72 hours and be bound by stringent rules for obtaining the consent of individuals on how their data can be used. GDPR became enforceable on May 25, 2018, and non-compliance exposes entities such as our company to significant fines or other regulatory claims. While we have invested in, and intend to continue to invest in, reasonably necessary resources to comply with these new standards, to the extent that we fail to adequately comply, that failure could have an adverse effect on our business, financial conditions, results of operations and cash flows.

***Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation could result in fines, criminal penalties and an adverse effect on our business.***

## Edgar Filing: STRATASYS LTD. - Form 20-F

We operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws. We are subject, however, to the risk that our affiliated entities or our and our affiliates' respective officers, directors, employees and agents (including distributors of our products) may take action determined to be in violation of such anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 and the U.K. Bribery Act of 2010, as well as trade sanctions administered by the Office of Foreign Assets Control and the U.S. Department of Commerce. Any violation by any of these persons could result in substantial fines, sanctions, civil and/or criminal penalties, or curtailment of operations in certain jurisdictions, and might adversely affect our results of operations. In addition, actual or alleged violations could damage our reputation and ability to do business.

**Table of Contents**

***We own a number of our manufacturing and office facilities, which may limit our ability to move those operations. If we were to move some or all of those operations, we could incur unforeseen charges.***

We own buildings in Eden Prairie, Minnesota, which we use to conduct our FDM manufacturing and assembly operations, as well as our office facility in Rehovot, Israel and manufacturing facility in Kiryat Gat, Israel. Ownership of these buildings and facilities may adversely affect our ability to move some or all of those operations to other locations that may be more favorable. If we were to move any of those operations to other locations, we may have difficulty selling or leasing the property that we vacate. This risk also applies to the facilities that we lease under non-cancellable lease agreements, where we cannot freely vacate the facilities. These limitations on our ability to move could result in an impairment charge, as occurred in the prior periods in respect of some of our leased facilities, which negatively impacted our results of operations, and could, in future periods, once again have an adverse effect on our results of operations.

***Default in payment by one or more resellers or customers from which we have large account receivable balances could adversely impact our results of operations and financial condition.***

From time to time, our accounts receivable balances have been concentrated with certain resellers or customers. Default by one or more of these resellers or customers could result in a significant charge against our current reported earnings. We have reviewed our policies that govern credit and collections, and will continue to monitor them in light of current payment status and economic conditions. In addition, we try to reduce the credit exposures of our accounts receivable by credit limits and credit insurance for many of our customers. However, there can be no assurance that our efforts to identify potential credit risks will be successful. Our inability to timely identify resellers and customers that are credit risks could result in defaults at a time when such resellers or customers have high accounts receivable balances with us. Any such default would result in a significant charge against our earnings and adversely affect our results of operations and financial condition.

***We are, and have been in the recent past, subject to litigation. Any current or future lawsuits to which we are subject may have a significant adverse effect on our financial condition or profitability.***

We are currently, and have been in the recent past, subject to litigation, and could be subject to further litigation in the future. Most recently, in November 2017, a former employee, whose employment had been terminated by our company in 2008 and who had previously unsuccessfully filed a suit against our company, brought an additional proceeding against us under Section 134 of the Israeli Patent Law seeking compensation and royalties for service inventions he invented while he served as an employee of our company. See “Item 8. Financial Information— Legal Proceedings” for further information concerning this proceeding.

While we intend to mount vigorous defenses to the above-described proceeding under the Israeli Patent Law and any additional lawsuits brought against us, we can provide no assurance as to the outcome of any such lawsuits, and any such actions may result in judgments against us for significant damages. Resolution of any such matters can be prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in litigation and other proceedings. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements. Regardless of the outcome, litigation has resulted in the past, and may result in the future, in significant legal expenses and require significant attention and resources of management. As a result, any present or future litigation could result in losses, damages and expenses that have a significant adverse effect on our financial condition or profitability.

***We rely on our management information systems for inventory management, distribution, and other key functions. If our information systems fail to adequately perform these functions, or if we experience an interruption in their operation, our business and operating results could be adversely affected.***

The efficient operation of our business is dependent on our management information systems. We rely on our management information systems: to, among other things, effectively manage our accounting and financial functions, including maintaining our internal controls; to manage our manufacturing and supply chain processes; and to maintain our research and development data. The failure of our management information systems to perform properly could disrupt our business and product development, which may result in decreased sales, increased overhead costs, excess or obsolete inventory, and product shortages, causing our business and operating results to suffer. Although we take steps to secure our management information systems, including our computer systems, intranet and internet sites, email and other telecommunications and data networks, the security measures we have implemented may not be effective and our systems may be vulnerable to theft, loss, damage and interruption from a number of potential sources and events, including unauthorized access or security breaches, natural or man-made disasters (such as floods or earthquakes), cyber-attacks, computer viruses, power loss, or other disruptive events. Our reputation, brand, and financial condition could be adversely affected if, as a result of a significant cyber event or otherwise, our operations are disrupted or shut down; our confidential, proprietary information is stolen or disclosed; we incur costs or are required to pay fines in connection with stolen customer, employee, or other confidential information; we must dedicate significant resources to system repairs or increase cyber security protection; or we otherwise incur significant litigation or other costs.



**Risks related to our intellectual property**

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

We rely on a combination of patent and trademark laws in the United States and other countries, trade secret protection, confidentiality agreements and other contractual arrangements with our employees, end-users and others to maintain our competitive position. In particular, our success depends, in part, on our ability, and the ability of our licensors, to obtain patent protection for our and their products, technologies and inventions, maintain the confidentiality of our and their trade secrets and know-how, operate without infringing upon the proprietary rights of others and prevent others from infringing upon our and their proprietary rights.

**Table of Contents**

Despite our efforts to protect our proprietary rights, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies, inventions, processes or improvements. We cannot assure you that any of our existing or future patents or other intellectual property rights will not be challenged, invalidated or circumvented, or will otherwise provide us with meaningful protection. Our pending patent applications may not be granted, and we may not be able to obtain foreign patents or pending applications corresponding to our U.S. patents. The laws of certain countries, such as China, may not provide the same level of patent protection and intellectual property right enforcement as in the United States, so even if we enforce our intellectual property rights or obtain additional patents in China or elsewhere outside of the United States, effective enforcement of such rights may not be effective. If our patents and other intellectual property do not adequately protect our technology, our competitors may be able to offer additive manufacturing systems, consumables or other products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents, and we may not be able to detect the unauthorized use of our proprietary technology or take appropriate steps to prevent such use.

If we attempt enforcement of our intellectual property rights, we may be (as we have been in the past) subject or party to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation, regardless of merit, can be costly and disruptive to our business operations by diverting attention and energies of management and key technical personnel, and by increasing our costs of doing business. Any of the foregoing could adversely affect our operating results.

***We may be subject to claims that we are infringing, misappropriating or otherwise violating the intellectual property rights of others.***

Our products and technology, including the technology that we license from others, may infringe, misappropriate or otherwise violate the intellectual property rights of third parties. Patent applications in the United States and most other countries are confidential for a period of time until they are published, and the publication of discoveries in scientific or patent literature typically lags actual discoveries by several months or more. As a result, the nature of claims contained in unpublished patent filings around the world is unknown to us, and we cannot be certain that we were the first to conceive inventions covered by our patents or patent applications or that we were the first to file patent applications covering such inventions. Furthermore, it is not possible to know in which countries patent holders may choose to extend their filings under the Patent Cooperation Treaty or other mechanisms. In addition, we may be subject to intellectual property infringement claims from individuals, vendors and other companies, including those that have acquired patents in the fields of 3D printing or consumable production for the sole purpose of asserting claims against us.

Under the Israeli Patent Law, 5727-1967, or the Patent Law, we may also be subject to royalty claims for “service inventions” conceived by employees in the course and as a result of or arising from their employment with us. Section 134 of the Patent Law provides that if there is no agreement between an employer and an employee as to whether the employee is entitled to consideration for service inventions, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine these issues. We believe that virtually all of our employees have executed invention assignment agreements in which they have assigned to us their rights to potential inventions and acknowledged that they will not be entitled to additional compensation or royalties from commercialization of inventions. We may, nevertheless, face claims demanding remuneration in consideration for assigned inventions.

In addition to patent infringement and patent-related claims, we may be subject to other intellectual property claims, such as claims that we are infringing trademarks or misappropriating trade secrets. We may also be subject to claims relating to the content on our websites, including third-party content posted on our Thingiverse.com or GrabCAD.com websites. Any intellectual property claims, regardless of the merit or resolution of such claims could cause us to incur significant costs in responding to, defending and resolving such claims, and may prohibit or otherwise impair our ability to commercialize new or existing products. Resolution of such claims may, among other things, require us to redesign infringing technology, enter into costly settlement or license agreements on terms that are unfavorable to us, pay royalties to employees or former employees, or indemnify our distributors and end-users. Any infringement by us or our licensors of the intellectual property rights of third parties may have a material adverse effect on our business, financial condition and results of operations.

***If we are unable to protect the confidentiality of our trade secrets or know-how, such proprietary information may be used by others to compete against us, in particular in developing consumables that could be used with our printing systems in place of our proprietary consumables.***

We have devoted substantial resources to the development of our technology, trade secrets, know-how and other unregistered proprietary rights. While we enter into confidentiality and invention assignment agreements intended to protect such rights, such agreements can be difficult and costly to enforce or may not provide adequate remedies if violated, and we may not have entered into such agreements with all relevant parties. Such agreements may be breached and confidential information may be willfully or unintentionally disclosed, including by employees who may leave our company and join our competitors, or our competitors or other parties may learn of the information in some other way. The disclosure to, or independent development by, a competitor of any of our trade secrets, know-how or other technology not protected by a patent or other intellectual property system could materially reduce or eliminate any competitive advantage that we may have over such competitor.

## Edgar Filing: STRATASYS LTD. - Form 20-F

This concern could manifest itself in particular with respect to our proprietary consumables that are used with our systems. Portions of our proprietary consumables may not be afforded patent protection. Chemical companies or other producers of raw materials used in our consumables may be able to develop consumables that are compatible to a large extent with our systems, whether independently or in contravention of our trade secret rights and related proprietary and contractual rights. If such consumables are made available to owners of our systems, and are purchased in place of our proprietary consumables, our revenues and profitability would be reduced and we could be forced to reduce prices for our proprietary consumables.

## **Table of Contents**

*As our patents expire, additional competitors using our technology could enter the market, which could offer competitive printers and consumables, require us to reduce our prices for our products and result in lost sales.*

Some of our patents have expired and others will expire in coming years. Upon expiration of those patents, our competitors have introduced, and are likely to continue to introduce, products using the technology previously protected by the expired patents, which products may have lower prices than those of our products. To compete, we may need to reduce our prices for those products, which would adversely affect our revenues, margins and profitability. Additionally, the expiration of our patents could reduce barriers to entry into AM systems, which could result in the reduction of our sales and earnings potential.

### **Risks related to operations in Israel**

*Our Israeli headquarters and manufacturing and other significant operations may be adversely affected by political, economic and military instability in Israel.*

One of our dual corporate headquarters, as well as our PolyJet system manufacturing facility, all of our PolyJet research and development facilities, one of our two PolyJet consumables manufacturing facilities, one of our FDM manufacturing facilities, and some of our suppliers, are located in central and southern Israel. In addition, many 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. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations. Over the past decade, Israel has been engaged in armed conflict with Hamas, a militia group and political party that controls the Gaza Strip, and during the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party. These conflicts involved missile strikes against civilian targets in various parts of Israel, including areas where some of our manufacturing facilities are located, and negatively affected business conditions in Israel. Any armed conflicts, terrorist activities or political instability in the region, including Iranian involvement in Syria, could adversely affect business conditions and could harm our results of operations and could make it more difficult for us to raise capital. Parties with whom we have agreements involving performance in Israel may claim that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements due to the political or security situation in Israel.

Furthermore, many of our male employees in Israel, including members of our senior management, are obligated to perform one month, and in some cases longer periods, of annual military reserve duty until they reach certain ages, and, in the event of a military conflict, may be called to active duty. Our operations could be disrupted by the absence of a significant number of Israeli employees or of one or more of our key Israeli employees who may be called to active duty due to a future military conflict. Such disruption could materially adversely affect our business and operations.

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 our Israeli operations could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions generally and could harm our results of operations.

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

We are organized under Israeli law. The rights and responsibilities of the holders of our ordinary shares are governed by our amended and restated articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S.-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on matters such as amendments to a company's articles of association, increases in a company's authorized share capital, mergers and acquisitions and interested party transactions requiring shareholder approval. In addition, a shareholder who knows 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 implications of these provisions that govern shareholders' actions. 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.

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

## Edgar Filing: STRATASYS LTD. - Form 20-F

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 merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each merging company with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, 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. Completion of the tender offer also requires approval of a majority of the offerees that do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company's outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, 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, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights.

**Table of Contents**

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, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions.

Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of the shares has occurred.

These and other similar provisions could delay, prevent or impede an acquisition of our company or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders.

***Exchange rate fluctuations between the U.S. dollar and the New Israeli Shekel, the Euro, the Yen and other non-U.S. currencies may negatively affect the earnings of our operations.***

We report our financial results and most of our revenues are recorded in U.S. dollars. However, substantially all of the manufacturing, research and development expenses of our Israeli operations, as well as a portion of the cost of revenues, selling and marketing, and general and administrative expenses of our Israeli operations, are incurred in New Israeli Shekels. As a result, we are exposed to exchange rate risks that may adversely affect our financial results. If the New Israeli Shekel appreciates against the U.S. dollar or if the value of the New Israeli Shekel declines against the U.S. dollar at a time when the rate of inflation in the cost of Israeli goods and services exceeds the rate of decline in the relative value of the New Israeli Shekel, then the U.S. dollar cost of our operations in Israel would increase and our results of operations would be adversely affected. Our Israeli operations also could be adversely affected if we are unable to effectively hedge against currency fluctuations in the future. We cannot predict any future trends in the rate of inflation or deflation in Israel or the rate of appreciation or devaluation of the New Israeli Shekel against the U.S. dollar. The Israeli annual rate of inflation (deflation) amounted to 0.8%, 0.4% and (0.2%) for the years ended December 31, 2018, 2017 and 2016, respectively. The annual appreciation (devaluation) of the New Israeli Shekel in relation to the U.S. dollar amounted to (8.1%), 9.8% and 1.5% for the years ended December 31, 2018, 2017 and 2016, respectively.

We also have substantial revenues and expenses that are denominated in non-US currencies other than the New Israeli Shekel, particularly the Euro. Therefore, our operating results and cash flows are also subject to fluctuations due to changes in the relative values of the U.S. dollar and those foreign currencies. These fluctuations could negatively affect our operating results and could cause our revenues and net income or loss to vary from quarter to quarter. Furthermore, to the extent that our revenues increase in regions such as Asia Pacific, where our sales are denominated in U.S. dollars, a strengthening of the dollar against other currencies could make our products less competitive in those foreign markets and collection of receivables more difficult.

From time to time we engage in currency hedging activities. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel or from fluctuations in the relative values of the U.S. dollar and other foreign currencies in which we transact business, and may result in a financial loss. For further information, please see “Item 11. Quantitative And Qualitative Disclosures About Market Risk” in this annual report.

***Calculating our income tax rate is complex and subject to uncertainty. We currently receive Israeli government tax benefits in respect of our Israeli operations. If we do not meet several conditions for receipt of those benefits, or if the Israeli government otherwise decides to eliminate those benefits, they may be terminated or reduced, which would impact our income tax rate and increase our costs.***

The computation of income taxes is complex because it is based on the laws of numerous taxing jurisdictions and requires significant judgment on the application of complicated rules governing accounting for tax provisions under GAAP. Income taxes for interim quarters are based on a forecast of our effective tax rate for the year, which includes forward-looking financial projections. Such financial projections are based on numerous assumptions, including the expectations of profit and loss by jurisdiction. It is difficult to accurately forecast various items that make up the projections, and such items may be treated as discrete accounting. Examples of items that could cause variability in our income tax rate include our mix of income by jurisdiction, changes in our uncertain tax positions, the application of transfer pricing rules, and tax audits. Future events, such as changes in our business and the tax law in the jurisdictions where we do business, could also affect our rate.

One important assumption that goes into calculation of our tax rate is the tax benefit that we receive in respect of some of our operations in Israel, referred to as “Approved Enterprise” and “Beneficiary Enterprise”, under the Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law. Based on an evaluation of the relevant factors under the Investment Law, including the level of foreign (that is, non-Israeli) investment in our company, we have estimated that our effective tax rate to be paid with respect to all Israeli operations under these benefit programs is 7% to 14%, based on the current balance of activity between our Rehovot, Israel and Kiryat Gat, Israel facilities and the available level of benefits under the law. If we do not meet the requirements for maintaining these benefits, they may be reduced or cancelled and the relevant operations would be subject to Israeli corporate tax at the standard rate, which for 2018 and onwards is set at 23% (the corporate

tax rate was 25% and 24% in 2016 and 2017, respectively). In addition to being subject to the standard corporate tax rate, we would be required to refund any tax benefits that we have already received as adjusted by the Israeli consumer price index, plus interest or other monetary penalties. Even if we continue to meet the relevant requirements, the tax benefits that our current “Approved Enterprise” and “Beneficiary Enterprise” receive may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we pay would likely increase, as all of our operations would consequently be subject to corporate tax at the standard rate, which may cause our effective tax rate to be materially different than our estimates and could adversely affect our results of operations. Additionally, if we increase our activities outside of Israel, for example, via acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefit programs, and that could also adversely affect our effective tax rate and our results of operations.

## **Table of Contents**

The Israeli government may furthermore independently determine to reduce, phase out or eliminate entirely the benefit programs under the Investment Law, regardless of whether we then qualify for benefits under those programs at the time, which would also adversely affect our effective tax rate and our results of operations.

***Certain Israeli governmental grants that we received for certain of our research and development activities in Israel may restrict our ability to transfer manufacturing operations or technology outside of Israel without obtaining a pre-approval from the relevant authorities and, in certain circumstances, payment of significant amounts to the authorities.***

Our Israeli-based research and development efforts were and are financed in part, through grants that we received from the National Technological Innovation Authority, or the Authority (formerly operating as Office of the Chief Scientist of the Ministry of Economy of the State of Israel, or the OCS). Through 2006, Objet received grants from the OCS of approximately \$1.5 million, which it repaid in its entirety (including interest thereon) by the end of 2007. More recently, we have received additional funding from the Authority of approximately \$6.7 million, in the aggregate (as of December 31, 2018), under several R&D programs to support certain research and development projects in Israel. Such funding is not subject to royalty obligations on our part.

We must comply with the requirements of the Israeli Encouragement of Research, Development and Technological Innovation Law, 5744-1984, or the Innovation Law (formerly known as the Encouragement of Industrial Research and Development Law, 5744-1984, or the Research Law), and related regulations, with respect to those current and past grants.

When a company develops know-how, technology or products using grants provided by the Authority, the terms of these grants and the Innovation Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel. Even after the repayment of such grants in full, we will remain subject to the restrictions set forth under the Innovation Law, including:

*Transfer of know-how outside of Israel.* Any transfer of the know-how that was developed with the funding of the Authority, outside of Israel, requires prior approval of the Authority, and the payment of a redemption fee.

*Local manufacturing obligation.* The terms of the grants under the Innovation Law require that the manufacturing of products resulting from Authority-funded programs be carried out in Israel, unless a prior written approval of the Authority is obtained (except for a transfer of up to 10% of the production rights, for which a notification to the Authority is sufficient).

*Certain reporting obligations.* We, as any recipient of a grant or a benefit under the Innovation Law, are required to file reports on the progress of activities for which the grant was provided as well as on our revenues from know-how and products funded by the Authority. In addition, we are required to notify the Authority of certain events detailed in the Innovation Law.

Therefore, if aspects of our technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of know-how or manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals. Furthermore, the OCS may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel.

The transfer of OCS-supported technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred technology or know-how, the amount of OCS support, the time of completion of the OCS-supported research project and other factors. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with OCS funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the OCS.

We received grants from the OCS prior to an extensive amendment to the Research Law that came into effect as of January 1, 2016, or the Amendment, which may also affect the terms of existing grants. The Amendment provides for an interim transition period (which has not yet expired), after which time our grants will be subject to terms of the Amendment. Under the Research Law, as amended by the Amendment, the Authority is provided with a power to modify the terms of existing grants. Such changes, if introduced by the Authority in the future, may impact the terms governing our grants.

***It may be difficult to enforce a U.S. judgment against us and our officers and directors in Israel or the United States, or to serve process on our officers and directors.***

We are organized in Israel. Most of our officers and most of our directors (as of December 31, 2018) reside outside of the United States, and a majority of our assets are located outside of the United States. Therefore, a judgment obtained against us or any of our executive officers and directors in the United States, including one 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.

**Table of Contents**

**Risks related to an investment in our ordinary shares**

*The market price of our ordinary shares may be subject to fluctuation, regardless of our operating results and financial condition. As a result, our shareholders could incur substantial losses.*

The market price of our ordinary shares since the Stratasy, Inc.- Objet Ltd. merger has been subject to substantial fluctuation. From the start of 2015 through the early part of 2019 (through February 20, 2019), our ordinary shares have traded with closing prices that have ranged from \$15.24 to \$81.05. The price of our ordinary shares may continue to be subject to substantial fluctuation regardless of our operating results or financial condition due to a number of factors, including:

the extent of growth of the 3D printing market generally;

changes in earnings estimates or recommendations by securities analysts;

development of new competitive systems and services by others;

success or failure of research and development projects of our company or our competitors;

developments concerning our or our competitors' intellectual property rights;

successes or failures of the acquisitions or dispositions that we consummate, as perceived by financial or industry analysts;

the general tendency towards volatility in the market prices of shares of technology companies; and

general market conditions and other factors, including factors unrelated to our operating performance.

These factors and any corresponding price fluctuations may materially and adversely affect the market price of our ordinary shares and result in substantial losses being incurred by our shareholders.

Market prices for securities of technology companies historically have been very volatile. The market for these securities has from time to time experienced significant price and volume fluctuations for reasons unrelated to the operating performance of any one company. In the past, following periods of market volatility, public company shareholders have often instituted securities class action litigation, as was the case in February and March, 2015, when class actions of our shareholders, alleging violations of the Exchange Act, were initiated against the Company and certain of our officers as defendants. Any such additional securities litigation could result in substantial costs and divert the resources and attention of our management from our business.

*Raising additional capital by issuing securities may cause dilution to our shareholders, and may furthermore be difficult in the current market environment.*

We may need or desire to raise substantial capital in the future. Our future capital requirements will depend on many factors, including, among others:

the extent to which we acquire or invest in businesses, products or technologies and other strategic relationships;

our degree of success in capturing a larger portion of additive manufacturing demand;

the costs of establishing or acquiring sales, marketing and distribution capabilities for our products;

the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our issued patents and defending intellectual property-related claims; and

the costs of financing unanticipated working capital requirements and responding to competitive pressures.

## Edgar Filing: STRATASYS LTD. - Form 20-F

If we raise funds by issuing equity or convertible debt securities, it will reduce the percentage ownership of our then-existing shareholders, and the holders of such new securities may have rights, preferences or privileges senior to those possessed by our then-existing shareholders.

The current market price for our ordinary shares, which has declined significantly since its all-time high in periods following the Stratasys, Inc.-Objet Ltd. merger, also adversely impacts our ability to raise funds in the capital markets.

***We do not anticipate paying any cash dividends in the foreseeable future. Therefore, if our share price does not appreciate, our shareholders may not recognize a return, and could potentially suffer a loss, on their investment in our ordinary shares.***

We intend to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our ordinary shares will be investors' sole source of a return on their investment for the foreseeable future.

***Even if we decide to pay dividends on our ordinary shares, we may be restricted from doing so or payment of such dividends may have adverse consequences for our company.***

Under the Companies Law, dividends may only be paid out of our profits and other surplus funds (as defined in the Companies Law) as of the end of the most recent year or as accrued over a period of the most recent two years, whichever amount is greater, provided that there is no reasonable concern that payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event that we do not meet the profit and surplus funds criteria, we can seek the approval of an Israeli court in order to distribute a dividend. The court may approve our request if it is convinced that there is no reasonable concern that the payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Due to the acquisition method of accounting utilized, under GAAP, for the Stratasys, Inc.-Objet Ltd. merger and the MakerBot transaction, pursuant to which we were deemed to have acquired Objet's assets and MakerBot's assets, we have incurred and will continue to incur significant annual amounts of amortization expense in respect of those assets. We are also subject to the risk of impairment charges from time to time to our acquired assets. These significant annual expenses under GAAP have reduced, and may continue to reduce or eliminate, our profits and surplus funds as determined under the Companies Law, and, hence, may restrict our ability to pay dividends (absent court approval).

**Table of Contents**

In general, the payment of dividends may also be subject to Israeli withholding taxes. In addition, because we receive certain benefits under the Israeli law relating to “Approved Enterprise” and “Beneficiary Enterprise”, our payment of dividends (out of tax-exempt income) may subject us to certain Israeli taxes to which we would not otherwise be subject. See “Risks related to our operations in Israel—The government tax benefits that we currently receive require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs.”

***We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting company, which will reduce the level and amount of disclosure that you receive.***

As a foreign private issuer under the Exchange Act, we are exempt from certain rules under the Exchange Act, including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act; and are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our ordinary shares. Accordingly, you receive less information about our company and trading in our shares by our affiliates than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

As a foreign private issuer, we are also permitted, and have begun, to follow certain home country corporate governance practices instead of those otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. We have informed NASDAQ that we follow home country practice in Israel with regard to, among other things, director nomination procedure and approval of compensation of officers. In addition, we have opted to follow home country law instead of the Listing Rules of the NASDAQ Stock Market that require that a listed company obtain shareholder approval for certain dilutive events, such as the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or greater interest in the company, and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on The NASDAQ Global Select Market may provide our shareholders with less protection than they would have as shareholders of a domestic U.S. company.

Our status as a foreign private issuer is subject to an annual review and test, and will be tested again as of June 28, 2019 (the last business day of our second fiscal quarter of 2019). If we lose our status as a foreign private issuer, we will no longer be exempt from such rules. Among other things, beginning on January 1, 2020, we would be required to file periodic reports and financial statements on a periodic basis (including both an annual report in respect of 2019 and quarterly reports in respect of each of the quarters of 2020) as if we were a company incorporated in the U.S., which, among other things, could result in increased compliance and reporting costs to us.

***If we are classified as a passive foreign investment company, or PFIC, our U.S. shareholders may suffer adverse tax consequences.***

Generally, if for any taxable year, after applying certain look-through rules, 75% or more of our gross income is passive income, or at least 50% of the value of our assets are held for the production of, or produce, passive income, we may be characterized as a PFIC for U.S. federal income tax purposes. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. If we are a PFIC, gain realized by a U.S. shareholder on the sale of our ordinary shares may be taxed as ordinary income (rather than as capital gain income), and an interest charge added to the tax. Rules similar to those applicable to the taxation of gains realized on the disposition of our stock would apply to distributions exceeding certain thresholds.

**Table of Contents**

Although we do not believe that we were a PFIC in 2018, we cannot assure you that the IRS will agree with that conclusion or that we will not become a PFIC in 2019 or in a subsequent year. The tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of our future income and the future value of our assets. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares. For a discussion of how we might be characterized as a PFIC and related tax consequences, please see Item 10.E, “Additional Information—Taxation—U.S. Federal Income Tax Considerations—Tax Consequences if We Are a Passive Foreign Investment Company”.

**ITEM 4. INFORMATION ON THE COMPANY.****A. History and Development of the Company**

Our legal and commercial name is Stratasys Ltd., and we are the product of the 2012 merger of two leading additive manufacturing companies, Stratasys, Inc. and Objet Ltd. Stratasys, Inc. was incorporated in Delaware in 1989, and Objet Ltd. was incorporated in Israel in 1998, under the name Objet Geometries Ltd., which was changed in 2011 to Objet Ltd. On December 1, 2012, the two companies completed the Stratasys, Inc.-Objet Ltd. merger, pursuant to which Stratasys, Inc. became an indirect, wholly-owned subsidiary of Objet Ltd., and Objet Ltd. changed its name to Stratasys Ltd. Also, as part of that transaction, the ordinary shares of Stratasys Ltd. were listed on the NASDAQ Global Select Market under the trading symbol “SSYS”, in place of the listing of the common stock of Stratasys, Inc., which had also traded under that symbol. On August 15, 2013 we acquired Cooperation Technology Corporation, or MakerBot, which was the direct parent company of MakerBot Industries, LLC, a leader in desktop 3D printing, and which owned and operated Thingiverse.com, a website dedicated to the sharing of user-created digital design files. The business of MakerBot (including Thingiverse.com) is now operated by a subsidiary of our company. In July 2014 and August 2014, we completed the acquisitions of Solid Concepts and Harvest Technologies, respectively, two leading providers of additive manufacturing services. Following those last two acquisitions, in 2015, we introduced our branded Stratasys Direct Manufacturing, or SDM, service, which significantly broadened and increased our production and offering of AM parts, which are used by our customers as prototypes, benchmarks and end-use parts.

We have dual headquarters. Our registered office and one of our two principal places of business is located at 1 Holtzman Street, Science Park, P.O. Box 2496, Rehovot 76124, Israel, and our telephone number at that office is (+972)-74-745-4314. Our other principal place of business is located at 7665 Commerce Way, Eden Prairie, Minnesota, and our telephone number there is (952) 937-3000. Our agent in the United States is S. Scott Crump, our Chairman of the Executive Committee, whose address is c/o Stratasys Inc. at the address of our Eden Prairie, Minnesota headquarters. Our World Wide Web address is [www.stratasys.com](http://www.stratasys.com). The information contained on that web site (or on our other web sites, including [www.objet.com](http://www.objet.com)) is not a part of this annual report. As an Israeli company, we operate under the provisions of Israel’s Companies Law, 5759-1999.

In 2018, 2017 and 2016, our capital expenditures amounted to \$24.8 million, \$23.8 million and \$47.1, million, respectively, of which \$23.4 million, \$22.3 million and \$45.1 million, respectively, was principally related to the purchase and construction of property, plant and equipment.

During 2018 and 2017, our principal property and equipment investment was the construction of our new facility at our new property in Rehovot, Israel, which we own, and where we moved our Israeli headquarters during January 2017. This new facility, towards which we paid \$11.5 million and \$9.8 million during 2018 and 2017, respectively, also houses research and development facilities. As of December 31, 2018, we had invested an aggregate of \$79.7 million in our new facility in Israel and its related equipment.

During 2018, we made other purchases of property and equipment, mainly for the enhancement of our manufacturing capabilities to support new solution offerings, primarily for our facilities in Israel and the United States.

**B. Business overview**

We are a leading global provider of applied additive technology solutions for industries including aerospace, automotive, healthcare, consumer products and education. For nearly 30 years, we have focused on customers’ business requirements and have sought to create new value for our customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. That customer-centric focus is reflected in our innovation, which is exemplified by our 1,400 granted and pending additive technology patents to date. We operate a 3D printing ecosystem of solutions and expertise, comprised of advanced materials; software with voxel level control; precise, repeatable and reliable fused deposition modeling 3D printers (utilizing proprietary FDM™ technology) and inkjet-based 3D printers (utilizing proprietary PolyJet™ technology); application-based services; on-demand parts and key partnerships. We strive to ensure that our solutions are integrated seamlessly into each customer’s evolving workflow. Our applications are industry-specific and geared towards accelerating business processes, optimizing value chains and driving business performance improvements. Our customers range from individuals and smaller businesses to large, global enterprises, and we include a number of Fortune 100 companies among our customers.



## **Table of Contents**

We believe that the range of 3D printing consumable materials that we offer, consisting of 59 FDM cartridge-based materials, 44 PolyJet cartridge-based materials, 158 non-color digital materials, and over 500,000 color variations, is the widest in the industry. Our services offerings include Stratasys Direct Manufacturing printed parts service as well as our professional services.

3D printing, which is also referred to as additive manufacturing, is transforming prototype development manufacturing processes and is displacing (or, in certain cases, complementing) certain segments of traditional, or subtractive, manufacturing methodologies such as metal extrusion, computer-controlled machining and manual modeling techniques. With respect to product design and prototype development, 3D printing significantly improves the design process, reduces the time required for product development and facilitates creativity, while keeping most or all of the design process in-house. 3D printing also enables the direct manufacture of parts that are subsequently incorporated into a user's end product. In addition, manufacturers are increasingly using 3D printing systems to produce manufacturing tools such as jigs and fixtures, that aid in their production and assembly processes. While 3D printing has historically been focused on design applications, 3D printing is beginning to show signs of adoption for manufacturing applications.

We offer a broad range of systems, consumables and services for 3D printing and additive manufacturing. Our wide range of solutions, based on our proprietary 3D printing technologies and materials, enhance the ability of designers, engineers and manufacturers to:

- visualize and communicate product ideas and designs;
- verify the form, fit and function of prototypes;
- manufacture tools, jigs, fixtures, casts and injection molds used in the process of manufacturing end-products;
- manufacture customized and short-run end-products more efficiently and with greater agility; and
- produce objects that could not otherwise be manufactured through subtractive manufacturing methodologies.

The primary focus of our 3D printing solutions has been for use in prototyping, tooling and manufacturing, and within the vertical markets of automotive, aerospace, medical, dental and education. Our portfolio offers a variety of performance options for our customers, depending on their desired application, as well as on the nature and size of the designs, prototypes or end-products they seek to produce. Our wide range of systems allows us to offer our customers systems at a number of different price points, depending on the features that our customers desire.

We benefit from recurring revenues from the sale of resin and plastic consumables and related services. We provide products and services to our global customer base throughout our offices in North America and internationally, including: Baden-Baden, Germany; Shanghai, China; and Tokyo, Japan, as well as through our worldwide network of approximately 160 agents and resellers. Additionally, through our MakerBot subsidiary, we deploy an online sales channel. We have approximately 2,200 employees worldwide.

## **Industry overview**

Historically, prototype development and customized manufacturing have been performed by traditional methods using metal extrusion, computer-controlled machining, and manual modeling techniques, in which blocks of material are carved or milled into specific objects. These subtractive manufacturing methodologies have numerous limitations. They often require specialist technicians and can be time- and labor-intensive. The time intensity of traditional modeling can leave little room for design error or subsequent redesign without meaningfully impacting a product's time-to-market and development cost. As a result, prototypes have traditionally been created only at selected milestones late in the design process, which prevents designers from truly visualizing and verifying the design of an object in the preliminary design stage. The inability to iterate a design rapidly hinders collaboration among design team members and other stakeholders and reduces the ability to optimize a design, as time-to-market and optimization become necessary trade-offs in the design process.

3D printing addresses the inherent limitations of traditional modeling technologies through its combination of functionality, quality, ease of use, speed and cost. 3D printing can be significantly more efficient and effective than traditional model-making techniques for use across the design process, from concept modeling and design review and validation, to fit and function prototyping, pattern making and tooling, to direct manufacturing of repeatable, cost-effective parts, short-run parts and customized end products. Introducing 3D modeling earlier in the design process to evaluate fit, form and function can result in faster time-to-market and lower product development costs.

For customized manufacturing, 3D printers eliminate the need for complex manufacturing set-ups and reduce the cost and lead-time associated with conventional tooling. DDM involves the use of 3D production systems for the direct manufacture of parts that are subsequently incorporated into the user's end product or manufacturing process. DDM is particularly attractive in applications that require short-run or low-volume parts or rapid turn-around, and for which tooling would not be appropriate due to small volumes. DDM also enables the production of objects that have been topologically designed, or designed on the basis of a computerized determination of where to place the key components of the object and how to connect them, a process that is generally unavailable using conventional subtractive manufacturing methodologies.

## Edgar Filing: STRATASYS LTD. - Form 20-F

The first commercial 3D printers were introduced in the early 1990s, and since the early 2000s, 3D printing technology has evolved significantly in terms of price, variety and quality of materials, accuracy, ability to create complex objects, ease of use and suitability for office environments. 3D printing is already replacing traditional prototype development methodologies across various industries such as architecture, automotive, aerospace and defense, electronics, medical, footwear, toys, educational institutions, government and entertainment, underscoring its potential suitability for an even broader range of industries. Additionally, 3D printing has created new applications for model-making in certain new market categories, such as: education, where institutions are increasingly incorporating 3D printing into their engineering and design course programs; dental and orthodontic applications, where 3D printed models are being used as replacements for traditional stone models, implants and surgical guides and for crowns and bridges for casting; and jewelry, where 3D printers are being used to produce custom-designed pieces of jewelry. Furthermore, 3D printing is being used in many industries for the direct digital manufacturing of end-use parts.



## **Table of Contents**

Desktop 3D printer usage has shown rapid growth, with the introduction and adoption of affordable entry-level 3D printers and increased availability and content. These entry-level desktop printers have increased market adoption by professional designers and education institutes. We expect that the adoption of 3D printing will continue to increase in the future, in terms of design applications, on the one hand, and DDM applications, on the other. We believe that the expansion of the market will be spurred by increased proliferation of 3D content and 3D authoring tools (3D computer-aided-design, or CAD, and other simplified 3D authoring tools), as well as increased availability of 3D scanners. We also believe that increased adoption of 3D printing will be facilitated by continued improvements in 3D printing technology and greater affordability of entry-level systems. We are active in facilitating the growth of the 3D printing market by bringing intuitive, design-to-3D print solutions to the market. We also believe that the increasing adoption of 3D printing in manufacturing processes serves as an important source of growth in the 3D printing industry.

## **Stratasys solutions**

### ***Range of solutions***

We provide an integrated solutions offering for designers, manufacturers, and medical personnel across different vertical markets focusing on aerospace, automotive, healthcare and education, including compatible products and services designed for our customers' use cases to effectively solve their specific application needs. Our solutions consist of 3D printing systems, consumables, software, paid parts, and strategic consulting and professional services.

Our solutions allow our end-users to print 3D models and parts that enhance their ability to visualize, verify and communicate product designs, thereby improving the design, development and validation processes and reducing time-to-market. Our systems create visual aids for concept modeling and functional prototyping to test fit, form and function, permitting rapid evaluation of product designs. Using presentation models developed with our systems, designers and engineers can typically conduct design reviews and identify potential design flaws earlier in the process and make improvements before incurring significant costs due to re-tooling and rework, allowing them to optimize a design rapidly and cost-effectively.

Our systems aid in the communication of ideas otherwise communicated in abstract or 2D media. For example, a model produced with our systems may be used as a sales tool, as a model or part display, or simply for use in conducting a focus group. It may also be used for accelerated collaboration in product design and manufacturing cycles at multiple locations, enabling visualization and tactile response, which can be critical to product development or sales process.

Our solutions also empower end-users to quickly and efficiently deploy parts that to incorporate into their manufacturing processes and improve its effectiveness. For instance, our solutions enable the production of manufacturing tools such as jigs, fixtures, casts and injection molds aiding in the production and assembly process.

Additive Manufacturing of end-use-parts, using our solutions, is attractive in applications requiring fast, short-run or low-volume parts where tooling would not be cost-efficient due to small volumes. Our solutions enable the production of objects that generally could not otherwise be manufactured through subtractive manufacturing methodologies.

Our solutions offering is characterized by the following distinguishing qualities:

material properties of printed objects, such as heat resistance, toughness, brittleness, elongation-to-break, color and flexibility;

quality of printed objects measured by, among other things, resolution, accuracy and surface quality;

multiple production-grade modeling materials;

reliability of printing systems;

speed of printing, including a one-step automated modeling process;

software workflows;

customer service;

ease of use; and

automatic, hands-free support removal.

*Range of technologies and differentiating factors*

Our solutions are driven by our proprietary technologies, brought together through the combination of our constituent companies, each of which was a leader in the 3D printing industry when acquired. We hold more than 1,400 granted or pending patents internationally, and our 3D printing systems utilize our patented extrusion-based FDM<sup>®</sup> and inkjet-based PolyJet<sup>™</sup> technologies to enable the production of prototypes, tools used for production and manufactured goods directly from 3D CAD files or other 3D content. In 2018, we announced the addition of our metals platform using our proprietary LPM<sup>™</sup> 3D printing process, which will come to market at a later date. We believe that our broad range of product and service offerings is a function of our 3D printing technology leadership.

A key attribute of our FDM<sup>®</sup> 3D printing technology is its ability to use a variety of production grade thermoplastic materials featuring surface resolution, chemical and heat resistance, color, and mechanical properties necessary for production of functional prototypes and parts for a variety of industries with specific demands and requirements. Use of these materials also enables the production of highly durable end parts and objects with soluble cores for the manufacture of hollow parts, the manufacture of which were previously dependent on slower and more expensive subtractive manufacturing technologies.

## **Table of Contents**

We believe this technology is differentiated by factors making it appropriate for 3D printing and additive manufacturing, including:

the ability to use FDM® systems in an office environment due to the absence of hazardous emissions;

low post-production processing requirements;

minimal material waste;

build repeatability;

ease of use, with minimal system set-up requirements;

absence of costly replacement lasers and laser parts; and

a high degree of precision and reliability.

We believe that our inkjet-based 3D printing technology is differentiated from other competing technologies in its ability to scale and deliver high-resolution and multi-material, full-color 3D printing. Our easy-to-use, PolyJet™ 3D printers create high-resolution, smooth surface finish models with the look, feel and functionality of the final designed product. We offer a wide variety of office-friendly resin consumables, including rigid and flexible (rubber-like) materials and bio-compatible materials for medical applications. Using our PolyJet™ digital materials technology, our solutions offer unique quality 3D printing systems depositing multiple materials simultaneously. This enables users, in a single build process, to print parts and assemblies made of multiple materials— each retaining its distinct mechanical and physical properties. For example, users can print objects with both rigid and flexible portions in a single build or mix different base colors in order to achieve desired color tone. The PolyJet™ technology enables on-demand mixing of a variety of resins to create a broad range of pre-defined digital materials, which are composite materials with modified physical or mechanical and color properties. The wide range of colors for objects to be printed (over 500,000, as noted below) is another key differentiating attribute for our 3D printers.

Our PolyJet inkjet-based 3D printing technology is also currently distinguished by its ability to offer a wide variety of materials including multi-material printing within a single part, in an office environment system.

We believe that the range of 3D printing consumable materials that we offer, consisting of 59 FDM cartridge-based materials, 44 PolyJet cartridge-based materials, 158 non-color digital materials, and over 500,000 color variations, is the widest in the industry.

## **Customers**

We have a diverse set of customers worldwide, with no single customer or group of affiliated customers nor any individual sales agent or group of affiliated sales agents accounting for more than 10% of our sales in 2018, 2017 or 2016. Our solutions are used across a wide array of applications in a variety of different industries.

## **Our competitive strengths**

We believe that the following are our key competitive strengths:

**Differentiated product offerings with superior model quality.** Our portfolio of 3D printing systems is differentiated through a combination of superior printing qualities, accuracy, print speed, the ability to print a range of materials with varying levels of strength, chemical and heat resistance, color and mechanical properties, the ability to print multiple materials simultaneously and suitability for office environments. Our offering spans the spectrum from entry-level desktop printers to high-end solutions for complex operations. Our FDM-based systems enable highly precise printing of engineering and high-performance thermoplastic materials, enabling a wide range of manufacturing applications with little or no post-production processing. Our PolyJet inkjet-based systems jet ultra-thin layers of material and enables voxel level control of the deposited materials, part realism (multi materials and colors), high accuracy and resolution and smooth finish to printed models. For use with these systems we offer a wide variety of office-friendly resin consumables, including rigid, flexible (rubber-like), transparent and color materials. We believe that we offer a unique quality printing system that utilizes the simultaneous jetting of up to six materials to enable end-users to print models with rigid, flexible and color materials, in virtually unlimited combinations, in a single build.

**Integrated solutions offering/ecosystem.** We provide integrated solutions offering that include compatible products and services that are designed to meet the full gamut of our clients' needs in an efficient manner, consisting of a broad range of systems, consumables and services, including:

3D printers

materials

professional services

parts on demand

vertical applications

partnerships and alliances

enhanced collaboration among industry professionals, via our GrabCAD Community, which provides engineers and designers a resource for CAD models and helps them communicate ideas and share designs.

## Table of Contents

**Proprietary technology platforms with multidisciplinary technological expertise.** We believe that our proprietary 3D FDM and 3D inkjet-based PolyJet printing engines offer end users the versatility and differentiated features necessary for a wide variety of current and potential applications. We combine our proprietary hardware platforms, featuring widely-deployed inkjet printer heads or easy-to-use extrusion heads with integrated software and a wide range of proprietary materials to develop and produce leading 3D printing systems. This allows us to offer a spectrum of 3D printers and printing systems of varying features, capacities and price points, and to migrate the advanced features of our high-end products to our entry-level products with greater efficiency. Our 3D printing solutions integrate innovations in a wide range of scientific disciplines, such as physics, chemistry, and mechanical and electrical engineering, as well as software development. We have made significant investments in developing and integrating technologies into our hardware platform, software and proprietary consumables. We believe that we have a strong base of technology know-how. Our patent portfolio consists of more than 1,400 granted or pending patents internationally. We believe that we have a culture of innovation, and we expect to continue to enhance our solutions both to further drive market adoption of 3D printing and to broaden our market reach.

**Leading Direct Manufacturing Business.** Our Stratasys Direct Manufacturing service business is one of the largest and leading AM parts service providers globally. This unit's knowledge of and experience in AM, including materials and systems know-how, and AM end-use parts production is expected to enhance our DDM offering suite. This unit offers a wide array of underlying printing technologies and materials. Furthermore, Stratasys Direct Manufacturing enables us to offer a broader solution to our customers, catering to more of their 3D printing needs, whether by supply of 3D printers or of 3D printed parts. We believe this offering creates better customer intimacy and a competitive advantage for Stratasys.

**Synergies between SDM and 3D printer sales businesses.** Our Stratasys Direct Manufacturing's AM parts service business has been capitalizing on the synergies between it and our 3D printer sales business. As a result of organizational changes that we made in 2018, Stratasys Direct Manufacturing has been brought directly under our North American sales organization and now benefits from access to some of the largest customers for our 3D printing systems, who have been increasingly relying upon Stratasys Direct Manufacturing for production parts and development needs. This has also favorably shifted the mix of production parts sold by Stratasys Direct Manufacturing towards more profitable additive manufacturing parts in place of conventional parts.

**Large and growing installed base.** Our differentiated offerings have led to a large and growing installed base. The significant installed base has resulted in greater distribution reach and enhanced opportunities for cross selling, given the significantly broadened and complementary product offerings. It furthermore presents us with an opportunity to generate recurring revenues from sales of consumables and services to the installed base.

**Leading position in desktop 3D printing.** Our MakerBot Desktop 3D printers provide accessible desktop 3D printers and materials and leading content creation and sharing solutions. We believe that the desktop 3D printing category is poised for future growth driven by broader adoption of 3D printing and an increase in the number of applications where 3D printing is used. We believe our installed base, brand awareness and portfolio of solutions in this category positions us to capitalize on the continued growth of this category.

**Diverse, global customer base.** We have a broad customer base, ranging from global market leading brands to small businesses and professionals and individuals. Our end-users include companies across a wide range of industries and applications, including automotive, aerospace, architecture, consumer products, educational institutions, defense, medical analysis, medical systems, electronics, and heavy equipment.

**Extensive global reach.** With approximately 160 channel partners around the world, we are well positioned to leverage the extensive geographic reach of our marketing and sales organization to serve customers and grow awareness of 3D printing for RP and DDM. In addition, through our MakerBot subsidiary we deploy an online sales channel.

**Increased accessibility and ease of use for customers.** Our GrabCAD software platform enables designers, engineers, and machine operators to easily utilize our 3D printing systems. GrabCAD Print provides native CAD job programming along with traditional 3D file formats (STL, VRML) reducing time and errors in job planning and resulting in high quality printed parts. Additionally, our advanced scheduling, remote monitoring and analytics provide management visibility to managers and operators across our technologies. GrabCAD Community is the online community of over 5M professional engineers, designers, manufacturers and students to share best practices via tutorials, discussion forums, design/print challenges and 3D content.

### **Our growth strategy**

The key elements of our strategy for growth include the following:

**Identifying new vertical applications for our proprietary 3D printing technologies.** We believe that the proliferation of 3D content, advancements in AM technology platforms and the introduction of improved materials will continue to drive growth in 3D printing. We intend to invest in the identification of new applications (especially DDM applications) for which our proprietary printing technologies and materials

are appropriate. In addition, we seek relevant niche applications where AM can provide substantial value, and develop a comprehensive solution to address these opportunities. We also intend to encourage existing and potential customers to identify new applications in part by increasing awareness of the features of our technology and product offerings.

**Increasing adoption of AM manufacturing solutions.** We believe that the adoption of 3D printing for tooling and manufacturing applications can be accelerated through working intimately with our customers and the 3D printing ecosystem, to reduce the complexity of using our solutions. We are investing in developing professional services capabilities to enhance our customers' ability to use our solutions. In addition, we collaborate with strategic partners in our ecosystem to streamline the integration of 3D printing solutions into the business processes of our customers.

## **Table of Contents**

**Leveraging our global reach to expand the customer base and further penetrate existing customers.** We have a network of approximately 160 resellers and selling agents around the world and various online channels. We intend to reach new customers and increase sales to existing customers by providing access to new solutions that address customers' specific needs. These solutions include those offered by our Stratasys Direct Manufacturing service. As part of this strategy we intend to grow awareness of 3D printing solutions for RP and DDM and to develop industry specific sales channels as part of our effort to commercialize a broader range of new DDM applications. Additionally, we expect to significantly expand our online presence and leverage our sales channel to the broader public.

**Driving further adoption through desktop systems.** We expect to drive market adoption through increased sales of our desktop systems. These systems are expected to penetrate a broad and largely untapped addressable market, targeting small design teams within large organizations, small and medium-sized businesses, educational institutes and individuals. We expect to leverage our growing Thingiverse community to accelerate adoption. We expect to incorporate certain additional features of our high-end series of printers into our entry-level series over time.

**Maintaining and extending our technology lead.** Our multidisciplinary technological leadership, as evidenced by our more than 1,400 granted or pending patents internationally, underpins our proprietary hardware, integrated software and range of 3D printing materials. We will seek to extend our technological capabilities by continuing to invest in our R&D efforts, which focus on enhancing our 3D PolyJet and FDM printing technologies as well as developing new innovative solutions for 3D printing and exploring inorganic opportunities for new printing technologies. In addition, we will continue developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, thereby broadening user applications. We believe that by enhancing our AM technological capabilities and by developing and introducing new materials for our 3D printing and production systems, we will be able to increase both the size of, and our share of, the 3D printing marketplace.

**Continuing servicing our installed base.** Today our company has the largest AM solutions installed base in the industry. We consider the relationship with our customers to be a valuable asset, as reflected in our customer satisfaction surveys. We plan to continue nurturing these relationships to enhance the intimacy with our customers, which will allow us to address their needs better through innovative and holistic prototyping and manufacturing solutions of printers and materials, AM printed parts service and advanced professional services.

**Integrated solutions offering.** Due in major part to a series of acquisitions, we have in place an offering of solutions that includes a complete gamut of compatible systems, consumables and services (parts on-demand, professional and expert consulting services) that are designed to meet our clients' needs in an integrated, complete manner. We intend to leverage that as a basis for generating additional sales and revenues from existing customers and attracting new customers.

**Stratasys consulting** – We intend to help companies to increase their adoption of 3D printing by helping them to identify new applications for our technology and by developing robust business cases for investment by them in our technology.

**Enhanced collaboration.** Our GrabCAD Community, which fosters collaboration among engineers and designers and helps them to communicate ideas and share designs, enhances the likelihood that we can draw from these new collaborations and enhance awareness, and, as a result, sales, of our integrated solutions.

**Growing through partnerships, investments and complementary acquisitions.** We may selectively pursue partnerships, which may include equity investments and/or acquisitions, to accelerate our growth strategy, and expand our product offerings, go-to-market and overall growth and market penetration.

## **Products and services**

### **Our products**

We offer a dedicated range of products for applications such as rapid prototyping (RP), tooling, and manufacturing parts. Our products include 3D printing systems, consumable materials, software and services.

Collectively, this portfolio of products offers a broad range of performance options for users, depending on their application, the nature and size of the designs, prototypes, and/or final parts desired. Our products are available at a variety of different price points and include entry-level desktop 3D printers, a range of systems for RP, and large production systems for additive manufacturing. We also offer a range of 3D printing materials (as described under "Consumable materials" below). The performance of our different systems varies in terms of capabilities, which are related to the following features:

print speed;

resolution;

materials;

resin cartridge capacity / filament spool size;

maximum model (or tray) size; and

duty cycle, or the number of parts that a printer can produce over a given period of time without requiring maintenance.



## **Table of Contents**

Our systems integrate our software and are supported by services provided to our customers, both directly and through our reseller channel.

### ***Printing systems***

Our 3D printing systems, which are based on our proprietary FDM and PolyJet technologies, are described below:

We offer a series of printing systems suitable for RP, from design validation, visualization and communication to form, fit and functional performance testing. These systems are targeted at work groups and provide customers with a broad range of features such as printing capacity, production speed and price.

Our PolyJet technology based high-end printing systems offer the ability to print multiple materials including color printing in a single part build. The J750 printer breaks restrictive technology barriers, enabling customers for the first time to mix-and-match full color gradients alongside a wide range of materials to achieve one-stop realism without post-processing. The Stratasys J750 allows customers to choose from more than 500,000 different color shades plus multiple material properties— ranging from rigid to flexible, and opaque to transparent.

The F123 Series printers enable end-to-end rapid prototyping for every stage of the prototyping process: Rapid, economically-effective concept verification models in PLA material and fast-draft mode; advanced design validation prototypes using a 0.005-inch slice resolution and soluble support for unmatched precision, repeatability and aesthetics. The new F123 Series product line allows users to create parts in PLA, ABS plus, ASA and PC-ABS materials. These materials can produce parts with the strength required for true form, fit and functional testing. The F123 Series printers are designed to enable ease of use and maintenance while offering an easy-to-use yet rich user experience with GrabCAD Print software.

We also offer printing systems typically used for Additive Manufacturing— production tooling and end parts applications—and high-performance Prototyping applications.

Our FDM technology based systems produce durable, production-grade thermoplastic-heated parts suitable for RP manufacturing, tooling and end-used parts use cases. The Stratasys Fortus F900 offers a streamlined workflow and easier job-monitoring with an internal camera and GrabCAD Print Software. Standard certifications are included, eliminating the effort and cost to qualify the 3D printer for the user's production floor. Additionally, we announced the Aircraft Interiors Solution in 2018 allowing a faster, simpler path for certifying additively manufactured parts for aircraft installation.

Our MakerBot Replicator series represents our desktop 3D printers, compact, and professional-grade 3D printers. Our desktop and compact 3D printers are affordable, and designed for easy, desktop use. They are typically used by educational institutions and designed for individuals operating alone or within an enterprise. Our new Method™ series of performance printers is aimed at bridging the gap between industrial and desktop systems, providing industrial level of reliability and precision combined with accessibility and ease of use found in desktop systems. The Method™ printers are built for the professional individual user.

To further strengthen our leadership position and following our strategy to deepen the focus on additive manufacturing, tooling and rapid prototyping for specific vertical markets, we have announced a variety of technology and go-to-market partnerships for various key vertical markets, such as automotive, aerospace, consumer products and healthcare.

### ***Consumable materials***

We sell a broad range of 3D printing materials, consisting of 59 FDM cartridge-based materials, 44 PolyJet cartridge-based materials, 158 non-color digital materials, and over 500,000 color variations, for use in our 3D printers and production systems. The sale of these materials provides us with a recurring revenue stream from users of our 3D printers and production systems.

The materials we sell are described below:

#### ***FDM materials***

The modeling and support filament used in the FDM-based 3D printers and production systems features a wide variety of production grade thermoplastic materials. We continue to develop filament modeling materials that meet our customers' needs for increased speed, strength, accuracy, surface resolution, chemical and heat resistance, color, and mechanical properties. These materials are processed into our proprietary filament form, which is then utilized by our FDM systems. Our spool-based system has proven to be a significant advantage for our products, because it allows the user to quickly change material by simply mounting the lightweight spool and feeding the desired filament into the FDM devices that are office friendly. Currently, we have a variety of build materials in multiple colors commercially available for use with our FDM

technology.

Each material has specific characteristics that make it appropriate for various applications. The ability to use different materials allows the user to match the material to the end use application, whether it is a pattern for tooling, a concept model, a functional prototype, a manufacturing tool, or a DDM end use part.

Our FDM printing materials are also environmentally friendly, as the packaging in which they are sold is returned to us for reuse after the contents are consumed.

*PolyJet materials*

Our resin consumables, which consist of our PolyJet family of proprietary acrylic-based photopolymer materials as well as our other inkjet-based systems, enable users of those products to create highly accurate, finely detailed 3D models and parts for a wide range of prototype development and customized manufacturing applications. The wide variety of resins within the PolyJet family is characterized by transparent, colored, or opaque visual properties and flexible, rigid or other physical properties. Support materials that are used together with the model materials enable the 3D printing of models with a wide array of complex geometries. Our resin-based materials are produced in-house and are specially designed for our printing systems.

## **Table of Contents**

We have invested significant research and development efforts in optimizing our PolyJet materials for use with inkjet technology. These efforts are reflected in the properties of these materials, which enable them to be packaged, stored, combined and readily cured upon printing. Our PolyJet materials are packaged in cartridges for safe handling and are suitable for use in office environments. The polymerized materials can also be machined, drilled, chrome-plated or painted in most cases.

### **Software**

Software is an essential ingredient of our solutions-based, go-to-market strategy. Built on cloud, desktop and mobile technologies, GrabCAD Print offers job programming, scheduling, monitoring, and analytics across our various 3D printing technologies.

Our job programming software enables the unique features of our 3D printing technologies such as creating lightweight, structurally sound infills for FDM and multi-material and color management for Polyjet. The feature set of GrabCAD Print is designed to make the process of creating high-quality, highly detailed and accurate models accessible to users in Shared Office, Enterprise Model Shops, Manufacturing and Health Care segments.

GrabCAD Print natively reads commonly used 3D CAD file formats as well as traditional STL and VRML files, transforming them into the appropriate code to operate our 3D printing systems. Our software provides a robust range of features, including structural toolpath and infill controls, color and appearance management, multi-material management, automatic support generation, part scaling, positioning and nesting, as well as geometric editing capabilities.

Our scheduling software includes capabilities to manage the operations of one or more printers including tray packing and optimization, job estimation, system availability, scheduling and monitoring via desktop, web or mobile devices. Additionally, analytics information is available in the form of standard utilization, material usage and job history reports enabling managers and operators to maximize use of our 3D printing systems.

GrabCAD Workbench is a cloud-based project data management solution that enables design teams to work together collaborating on design tasks and managing CAD files. Capabilities include file version management, 3D view-markup-measure-compare, and backup and restore in a securely managed environment fostering project workflow efficiency.

Our software is available in 9 languages to promote usage in the regions in which we operate.

### **Online Community**

#### *Thingiverse.com*

Thingiverse is our online community for sharing downloadable, digital 3D designs. The Thingiverse platform enables users to share and customize their digital designs. We believe that Thingiverse is the largest repository of free 3D printable content available to consumers. Thingiverse includes approximately one million public designs available for downloading. We have had approximately three million uploads and more than 375 million downloads of designs via this platform.

#### *GrabCAD Community*

We operate the GrabCAD Community for mechanical engineers, designers, manufacturers and students where members can share best practices via tutorials, discussion forums, and design/print challenges. They can also upload and download free CAD models and access our GrabCAD Print and Workbench software. This community had more than 5.6 million members and more than 3.3 million CAD files available for free download at the end of 2018.

### **Our services**

#### ***Support services and warranty***

##### *Customer support*

Our customer support department provides on-site system installation, operator training, a full range of maintenance and repair services and remote technical support to users of our products. We provide support to our customers directly and through our resellers, ensuring that support and parts may be readily obtained worldwide. We also offer advanced training to our customers, particularly on our high-performance systems.

Our support network consists of the following:

Stratasys-certified engineers providing worldwide, on-site installation, training and support;

direct support engineers through our company;

indirect support engineers through certified partners, including third-party service organizations or selected resellers who provide support for our systems;

phone and direct on-site company support in eight languages, and resellers indirect support in local languages.

service logistics in key regional centers;

training facilities and resources in regional centers;

customer-relationship management (CRM) system and learning management system (LMS) to ensure high-quality support for our customers and resellers, including secure remote access to a customer service database containing service history and technical documentation to aid in troubleshooting and repairing systems;

support, tools and up-to-date information to our direct customer and distribution channels from our product support engineering team;

full range of commercial service programs to support the high utilization of our 3D printers and our customers' unique needs; and

an eCommerce platform allowing for smooth and fast purchasing of our 3D printing materials.

## **Table of Contents**

Our goal is to ensure maximum uptime and productivity for our AM systems. In order to do so, we regularly update the technical documentation related to our systems, offer extensive training courses for operators and promote proactive knowledge sharing designed to help users maximize the value of their equipment and to expand the applications for which they employ our 3D printing and production systems.

We offer services on a time and materials basis, as well as a full range of post-warranty maintenance contracts with varying levels of support and pricing, as described below under “Extended support programs.” Customer support is represented on cross-functional product development teams within our company to ensure that products are designed for serviceability and to provide our internal design and engineering departments with feedback on field issues. Failure analysis, corrective action, and continuation engineering efforts are driven by data collected in the field. Ongoing customer support initiatives include development of advanced diagnostic and troubleshooting techniques and comprehensive preventative maintenance programs, an expanded training and certification program for Stratasys and Stratasys partners’ technical personnel, and improved communication between the field and the factory.

### *Basic warranty*

Our printing systems are sold with warranties that range from 90 days to three years from installation, depending upon the product line and geographic location. Warranties are generally accompanied by on-site maintenance support. Receipt of maintenance and repair services after the warranty period is subject to the terms of our extended support programs, to the extent purchased by the end-user, as described below.

### *Extended support programs*

Recognizing that our end-users have varying support needs, we offer a range of support programs that enable our end-users to continue to receive maintenance services beyond the initial warranty period. These support programs contain varying degrees of the support services described above and are priced accordingly.

### *Leasing and other services*

We have arrangements, in certain countries, in which third-party financial institutions independently provide lease financing directly to our customers, on a non-recourse basis to the Company. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale. In addition, we provide pay-per-usage subscription services for our 3D printers and 3D production systems via partners in our global manufacturing network. The revenues generated from such program were insignificant.

We also offer a ‘Try and Buy’ program, which provides businesses the ability to try out a 3D printer prior to deciding whether or not it’s the right fit for their company. The potential purchasers of a 3D printer receive customer support from our company during the trial period.

### *Stratasys Consulting*

Stratasys Consulting is an industry-leading strategy, operations and engineering consultancy focused on helping customers adopt 3D printing capabilities.

In today’s rapidly advancing 3D printing industry, customers find they desire guidance and advice on where to identify, apply and justify potential 3D printing investments. Stratasys Consulting fills a key value proposition for how more customers are buying by building plans before they are ready to buy equipment or parts.

Stratasys Consulting delivers paid consulting projects leveraging 3D printing capabilities from strategy - driving product innovation to operational - productivity and cost improving on a factory floor. Stratasys Consulting also delivers engineering consulting and training services from application design optimization for 3D printed parts to operators and design for additive manufacturing training. Stratasys Consulting harnesses the Stratasys expertise from strategic consultants, application engineers, equipment, software and materials experts to provide unmatched 3D printing advisory to customers.

### *Stratasys Direct Manufacturing paid-parts service*

Stratasys Direct Manufacturing was formed on January 1, 2015 from our three AM service companies – RedEye (formerly a business unit of Stratasys, Inc.) and the acquired businesses known as Harvest Technologies and Solid Concepts – and is a provider of 3D printing and custom AM services. Stratasys Direct Manufacturing offers AM capabilities encompassing a wide range of technologies allowing for plastic and metal parts for rapid prototyping and production processes. Our Stratasys Direct Manufacturing paid-parts service produces prototypes and end-use parts for customers from a customer-provided CAD file. This allows the customer to benefit from our process-related know-how, capitalize on

the variety of materials and machine types available through our service center, and take advantage of additional capacity using the latest in proven RP and DDM technologies and processes. Our Stratasys Direct Manufacturing business operates a website service, [www.stratasysdirect.com](http://www.stratasysdirect.com), which enables our customers to obtain quotes and order parts around the clock, seven days a week. Stratasys Direct Manufacturing also provides companies with access to a Stratasys Consulting team, which helps companies to identify and evaluate new applications for 3D printing.

## **Table of Contents**

### ***Recent Key Portfolio Additions & Innovations***

In 2018, Stratasys announced several new hardware and consumable offerings. A new edition to the manufacturing and jigs & fixtures line-up is the CF 380, carbon-fiber based printer. Delivering time- and cost-saving tool customization as an alternative to heavier machined metal tools, the CF380 reduces lead time and time-to-market with material properties that mirror the final metal or composite product. The CF380 delivers greater reliability, quality, speed and build-size for 33% less cost than the competition.

Additionally, we added elastomeric material to our award-winning F123 offering. Empowering engineers with fast, accurate, and functional elastomers, customers can now produce parts with unique resilience with an ability to greatly stretch or compress without losing shape. Offered across the F123 3D Printer platform, the Stratasys TPU 92A Elastomer is designed to meet the needs of manufacturers requiring high-part elongation, superior toughness, and full design freedom. With hands-free soluble support, the solution can significantly reduce both production time and labor costs.

### ***New Additive Manufacturing Technology for Metal***

Helping customers pioneer a new era in additive manufacturing for production-grade metal parts, Stratasys released further details of a new platform currently being developed and designed for short-run metal applications. The additive platform is based on Stratasys' innovative, first-of-its-kind LPM technology, using layered powder metallurgy processes to make production of metal parts quicker, easier and more cost-effective than ever before.

Intended to disrupt conventional manufacturing approaches, the LPM metal printing platform is being developed to combine the value of additive manufacturing with short-run metal parts production. The innovative technology is built to drive improved efficiency and cost savings using standard Powder Metallurgy (PM) alloys, mechanical properties with high accuracy and controlled shrinkage, as well as extremely fast throughput.

## **Marketing, sales and distribution**

### ***Marketing***

Our marketing strategies are focused on increasing awareness and thought leadership for our product and solution areas, strengthening our leadership brand position in the market, and in key vertical industries such as automotive, aerospace, healthcare, education and consumer goods, accelerating and supporting sales growth, and increasing customer loyalty and customer lifetime value. We initiate thought-leadership, public and industry analyst relations and product launch programs as well as integrated campaigns targeted to extend and deepen the relationship with our existing customers and win new customers, driving demand and lead generation throughout our strategic markets in which we and our resellers and agents operate.

We use a variety of inbound and outbound marketing methods to reach potential customers. Examples of inbound methods include digital marketing demand and lead generation programs including blogs, social media, search marketing (Search Engine Optimization and Pay-Per-Click advertising), lead nurturing with webinars, white papers etc. Outbound channel examples include digital and print communication programs, public relations, direct mail and e-mail campaigns, tradeshows, thought leadership events, newsletters, industry associations and referrals. In addition, we have built and maintain on-site product and technology demonstration capabilities in certain regional offices across the world.

We measure and analyze the success of various marketing initiatives and strive to identify current and future customer needs. Based on our analysis, we create and update our product roadmaps and individual marketing plans to help optimize distribution while helping ensure a smooth process of release, ramp-up and sales of our products.

### ***Sales distribution methods***

Our sales organization sells, distributes and provides follow-up support services with respect to our AM systems and related consumables, through a worldwide sales and marketing infrastructure. We generally use three methods for distribution and support: (i) sales to resellers who purchase and resell our products and through whom follow-up support and maintenance services and replacement parts are provided to end-users; (ii) sales of systems that are arranged by a network of independent sales agents worldwide, pursuant to which we sell directly to end-users, pay commissions to such agents, and directly handle the sale of consumables and provision of follow-up support services; and (iii) direct sales of systems or services to end-users without the involvement of any intermediaries, for which all aspects of our sales and follow-up services are handled exclusively by our company. In certain instances, the same individual or company can serve as a reseller with respect to certain of our products while acting as an independent sales agent for other products. Our resellers and independent sales agents are overseen by

regional managers and operate on a non-exclusive basis, although we believe that most do not sell competing AM systems.

Almost all of the reseller and independent sales agent locations that distribute our products have our AM systems available for tradeshow, product demonstrations, and other promotional activities. Additionally, many of them enjoy a long-term presence and offer third-party 3D CAD software packages in their respective territories, enabling them to cross-sell our systems to customers who purchase those other products.

In addition to our direct and indirect seller network, we also offer our MakerBot Replicator series and related consumables and services through our online and retail channels.

*Geographical structure of sales organization*

The primary sales organization for our 3D printers and production systems including related consumables, materials and services is divided into groups based on the following geographical regions: Americas; Europe and Middle East; and Asia Pacific. This structure allows us to align our sales and marketing resources with our diverse customer base. Our sales organization in each region provides sales support to the network of independent reseller and sales agent locations throughout the particular region. We also operate sales and service centers in various locations throughout North America and internationally, including: Baden-Baden, Germany; Shanghai, China; and Tokyo, Japan.



## **Table of Contents**

### **Manufacturing and suppliers**

#### ***Manufacturing***

The manufacturing process for our 3D printing and production FDM and PolyJet systems consists of assembling those systems using both off-the-shelf and customized components manufactured specifically for us and producing and packaging the consumables products to be used by those systems. Our core competencies include FDM and PolyJet systems integration, software installation and resin and filament manufacturing. The majority of those activities are done internally at our facilities. We currently operate on a build-to-forecast basis and obtain all parts used in the FDM and PolyJet systems manufacturing process from either distributors of standard electrical or mechanical parts or custom fabricators of our proprietary designs. Our manufacturers and suppliers are periodically assessed by us based on their on-time performance and quality.

We purchase major component parts for our FDM and PolyJet systems from various suppliers, subcontractors and other sources, and test those parts in our U.S. and Israeli facilities.

Computer-based Material Requirements Planning, or MRP, is used for reordering to better ensure on-time delivery of parts and raw materials. Operators and assemblers are trained on assembly and test procedures including Assembly Requirement Documents, which originate in engineering. In the manufacturing processes for our FDM and PolyJet systems, we employ a Quality Management System, or QMS, that meets international quality standards including ISO 9001:2008 and ISO 13485:2003, which relates to medical devices. We also outsource the manufacture of main subassemblies up to fully assembled systems ready for integration.

The system assembly process for our FDM and PolyJet systems includes semi-automated functional tests of key subassemblies. Key functional characteristics are verified through these tests, and the results are stored in a statistical database.

Upon completion of the assembly of our 3D printing and production FDM and PolyJet systems, we perform a complete power up and final quality tests to help ensure the quality of those products before shipment to customers. The final quality tests must be run error-free before the FDM and PolyJet systems can be cleared for shipment. We maintain a history log of all FDM and PolyJet products that shows revision level configuration and a complete history during the manufacturing and test process. All identified issues on the FDM and PolyJet systems during the manufacturing process are logged, tracked and used to make continuous production process improvements. The commonality of designs among our different FDM and PolyJet product families eases the transition to manufacturing new designs.

Our filament production uses Factory Physics<sup>®</sup> techniques to manage critical buffers of time, capacity and inventory to ensure product availability. We also use the 5S method (Sort, Set-in-order, Shine, Standardize and Sustain) and a continuous improvement system as part of our lean manufacturing initiatives to improve organization and efficiency.

#### ***Inventory and suppliers***

We maintain an inventory of parts to facilitate the timely assembly of products required by our production plan. While most components are available from multiple suppliers, certain components used in our systems and consumables are only available from single or limited sources. In particular, the printer heads for our PolyJet 3D printing systems are supplied by a sole supplier, Ricoh. We consider our single and limited-source suppliers (including Ricoh) to be reliable, but the loss of one of these suppliers could result in the delay of the manufacture and delivery of the relevant components (and, ultimately, of our products). This type of delay could require us to find and re-qualify the component supplied by one or more new vendors. Although we consider our relationships with our suppliers to be good, we continue to develop risk management plans for these critical suppliers. In order to hedge against the risk of a discontinuation of the supply of our inkjet printer heads in particular, we maintain a reasonable supply of excess inventory of printer heads.

#### ***Ricoh Agreement***

We purchase the printer heads for our inkjet 3D printing systems from Ricoh pursuant to an OEM Purchase and License Agreement with Ricoh, or the Ricoh Agreement.

Under the Ricoh Agreement, we place orders for print heads and associated electronic components, or the Ricoh Products. Together with provision of these items, Ricoh provides us with a non-transferable, non-exclusive right to assemble, use and sell the Ricoh Products under Ricoh's patent rights and trade secrets.

Pricing under the Ricoh Agreement depends on the quantity of Ricoh Products that we purchase during any given month, and to the extent that we commit to a certain annual minimum prior to an upcoming year, we receive a set, discounted price for all Ricoh Products ordered during that upcoming year.

## Edgar Filing: STRATASYS LTD. - Form 20-F

The Ricoh Agreement runs for an initial term of five years (which we renewed in September 2016) and automatically renews for additional one-year periods thereafter unless either party provides the other six months' advance written notice of termination prior to the end of the then-current term. The Ricoh Agreement may be cancelled by either party if (i) the other party substantially breaches any material provision of the agreement and has not cured such breach within 30 days of receipt of written notice thereof, or (ii) upon the occurrence of certain bankruptcy events, and may furthermore be cancelled by Ricoh if we fail to cure a breach of an undisputed payment obligation within thirty (30) days of the breach.

## **Table of Contents**

At any time during the term of the Ricoh Agreement, Ricoh may discontinue the manufacture and supply of a print head model, so long as it provides us with at least eighteen (18) months' prior written notice of such discontinuance and honors all of our purchase orders for the subject print head model within the notice period. During the period of five years from the earlier of either the termination of the Ricoh Agreement or the date of discontinuance of the manufacture of Ricoh Products (that is, following the 18-month notice period described in the previous sentence), we are entitled to purchase additional Ricoh Products for the sole purpose of providing replacements for the installed base of Ricoh Products, including one final purchase order that we may place in the final year of such five-year period and that must be filled by Ricoh within twelve months of when it is placed.

The Ricoh Agreement may not be assigned by either party without the other party's prior written consent, which may not be unreasonably withheld.

## **Research and development**

We maintain an ongoing program of research and development, or R&D, to develop new systems and materials and to enhance our existing product lines, as well as to improve and expand the capabilities of our systems and related software and materials. This includes significant technology platform developments for our FDM and PolyJet technologies, our AM systems, including our integrated software, and our family of proprietary acrylic-based photopolymer materials for PolyJet printing and family of proprietary thermoplastic materials for FDM printing. Our research aims to develop incremental and disruptive improvements, as well as more affordable products. Our engineering development efforts also focus on customer requested enhancements, and development of new modeling processes, software and user applications. In particular, we have devoted significant time and resources to the development of a universally compatible and user-friendly software system.

Our R&D department is divided into groups based on scientific disciplines and product lines. We continue to standardize our product platforms, leveraging each new design so that it will result in multiple product offerings that are developed faster and at reduced expense.

We invest a significant amount of our resources in R&D, because we believe that superior technology is a key to maintaining a leading market position. Our net R&D expenses were approximately \$99.0 million, \$96.2 million and \$97.8 million in the years ended December 31, 2018, 2017 and 2016, respectively. Our consumable materials development and production operations for our FDM and PolyJet systems are located at our facilities in Eden Prairie, MN, and Kiryat Gat, Israel. We regard the consumable materials formulation and manufacturing process as a trade secret and hold patent claims related to these products. We purchase and formulate raw materials for our consumables production from various polymer resin and thermoplastic materials suppliers with different levels of processing and value-add applied to the raw materials.

## **Intellectual property**

We consider our proprietary technology to be important to the development, manufacture, and sale of our products and seek to protect such technology through a combination of patents, trade secrets, and confidentiality agreements and other contractual arrangements with our employees, consultants, customers and others. All patents and patent applications for additive manufacturing processes and apparatuses associated with our technology were assigned to us by those inventors. The principal granted patents relate to our FDM systems, our PolyJet technologies, our 3D printing processes and our consumables, certain of which have already expired and certain of which have expiration dates ranging from 2019 to 2038.

We are also a party to various licenses and other arrangements that allow us to practice and improve our technology under a broad range of patents, patent applications and other intellectual property, including a cross-license agreement with 3D Systems Corporation under which each party licensed certain patents of the other party, an assignment of rights to us related to UV polymer-based U.S. patents, which underlie certain technologies that compete with ours, and a patent license agreement with Cornell University providing access to certain tool changer patents.

In addition, we own certain registered trademarks and make use of a number of additional registered and unregistered trademarks, including "Stratasys," "Objet," "PolyJet," "Connex," "J750," "J735," "Vero," "Tango," "FDM," "Fortus," "F123 Series," "F370," "F900," "Dimension," "uPrint," "1 Direct Manufacturing," "SDM," "GrabCAD," "GrabCAD Print," "GrabCAD Community," "GrabCAD Workbench," "MakerBot," "Method," "Thingiverso," "Replicator," the Stratasys Signet logo, "LPM" and "Digital Anatomy."

We believe that, while our patents provide us with a competitive advantage, our success depends on our marketing, business development, applications know-how and ongoing research and development efforts, in addition to our rights under granted and pending patents. Accordingly, we believe that the expiration of any single patent, or the failure of any of single patent application to result in an issued patent, would not be material to our business or financial position. In any event, there can be no assurance that our patents or other intellectual property rights will afford us a meaningful competitive advantage. Please see the risk factor related to the expiration of our patents in "Item 3.D Risk Factors—Risks related to our intellectual property."

**Competition**

Our principal competitors consist of other developers of additive manufacturing systems as well as other companies that use fused deposition modeling and inkjet-based technologies to compete in additive manufacturing. A variety of additive manufacturing technologies compete with our proprietary technologies, including:

Vat polymerization (Including Stereolithography and Digital Light Projection); and

Selective Laser Sintering and High Speed Sintering.

The companies that use these technologies to compete with us include, inter alia, 3D Systems Corporation, EOS GmbH, HP, Carbon and Markforged.

These technologies, which compete for additive manufacturing users, possess various competitive advantages and disadvantages relative to one another within the key categories upon which competition centers, including resolution, accuracy, surface quality, variety and properties of the materials they use and produce, capacity, speed, color, transparency, the ability to print multiple materials and others. Due to these multiple categories, end-users usually make purchasing decisions as to which technology to choose based on the characteristics that they value most. This decision is often application specific. The competitive environment that has developed is therefore intense and dynamic, as players often position their technologies to capture demand in various verticals simultaneously.

## **Table of Contents**

For our desktop systems and materials, we face competition from a variety of sources, including companies using material extrusion and Vat polymerization systems, such as Markforged, Ultimaker, XYZ Printing and Formlabs. The competing offerings in the lower-end categories vary based on cost, printer and part quality, support materials, speed, ease of use, software ecosystem and reliability.

We are positioned to compete in our industry mainly on the following bases, which we view as competitive strengths:

material properties of printed objects, such as heat resistance, toughness, brittleness, elongation-to-break, color and flexibility;

quality of printed objects measured by, among other things, resolution, accuracy and surface quality;

multiple production-grade modeling materials;

our offering of the only multi-color, multi-material 3D printing systems in the market;

reliability of printing systems;

speed of printing, including a one-step automated modeling process;

ability to be used in an office environment;

ease of use;

automatic, hands-free support removal;

high level of customer service; and

deep application and domain know-how and expert services.

We offer a wide range of systems with varying features, capacities and price points. We believe that this enables us to compete with the other additive manufacturing technologies for a wide range of customers with a variety of applications and goals for their additive manufacturing.

We also compete with companies that use traditional prototype development and customized manufacturing technologies, and expect future competition to arise from the development of new technologies or techniques.

## **Seasonality**

Historically, our results of operations have been subject to seasonal factors. Stronger demand for our products has historically occurred in our fourth quarter primarily due to our customers' capital expenditure budget cycles and our sales compensation incentive programs. Our first and third quarters have historically been our weakest quarters for overall unit demand. The first quarter is typically a slow quarter for capital expenditures in general. The third quarter is typically when we see our largest volume of educational related sales, which normally qualify for special discounts as part of our long-term penetration strategy.

We furthermore experience seasonality within individual fiscal quarters, as a substantial percentage of our system sales often occur within the last month of each fiscal quarter. This trend has the potential to expose our quarterly or annual operating results to the risk of unexpected, decreased revenues in the case of our inability to build systems, consummate sales and recognize the accompanying revenues prior to the end of a given quarter.

## **Global operations**

We have offices in, among other locations, Brazil, China, Germany, Hong Kong, Israel, Japan, Korea, India, Mexico, the United Kingdom and the United States, and organize our operations by geographic region, focusing upon the following key regions: the Americas; Europe and Asia Pacific. Our products are distributed in each of these regions, as well as in other parts of the world. Our customers are dispersed geographically, and we are not reliant on any single country or region for most of our product sales and services revenues, although 62% of our 2018 revenues

were generated in the Americas and our SDM printed parts services are primarily based in the United States and therefore reliant on United States customers. A breakdown of our consolidated revenues by geographic markets and by categories of operations (that is, products and services) for the years ended December 31, 2018, 2017 and 2016 is provided in “Item 5.A Operating and Financial Review and Prospects—Operating Results.” In maintaining global operations, our business is exposed to risks inherent in such operations, including currency fluctuations, market conditions, and inflation in the primary locations in which our operating expenditures are incurred. Information on currency exchange risk, market risk, and inflationary risk appears elsewhere in this annual report in “Item 3.D Risk Factors” and in “Item 11. Quantitative and Qualitative Disclosure About Market Risk—Foreign Currency Exchange Risk.”

**Employees**

The total number of our full-time equivalent employees, and the distribution of our employees (i) geographically and (ii) within the divisions of our company, in each case as of December 31, 2018, 2017 and 2016, are set forth in this annual report in “Item 6.D Directors, Senior Management and Employees—Employees”.

## **Table of Contents**

### **Government regulation**

We are subject to various local, state and federal laws, regulations and agencies that affect businesses generally. These include:

regulations promulgated by federal and state environmental and health agencies;

foreign environmental regulations, as described under “Environmental matters” immediately below;

the federal Occupational Safety and Health Administration;

the U.S. Foreign Corrupt Practices Act;

laws pertaining to the hiring, treatment, safety and discharge of employees;

export control regulations for U.S. made products, which may be changed in the near future; and

CE regulations for the European market.

### ***Environmental matters***

We are subject to various environmental, health and safety laws, regulations and permitting requirements, including (but not limited to) those governing the emission and discharge of hazardous materials into ground, air or water; noise emissions; the generation, storage, use, management and disposal of hazardous and other waste; the import, export and registration of chemicals; the cleanup of contaminated sites; and the health and safety of our employees. Based on information currently available to us, we do not expect environmental costs and contingencies to have a material adverse effect on our operations. The operation of our facilities, however, entails risks in these areas. Significant expenditures could be required in the future to comply with environmental or health and safety laws, regulations or requirements.

Under such laws and regulations, we are required to obtain environmental permits from governmental authorities for certain operations. In particular, in Israel, where we assemble our inkjet-based PolyJet 3D printing systems and manufacture our resin consumables, businesses storing or using certain hazardous materials, including materials necessary for our Israeli manufacturing process, are required, pursuant to the Israeli Dangerous Substances Law 5753-1993, to obtain a toxin permit from the Ministry of Environmental Protection. Our three Israeli toxin permits will remain in effect until February 2021, June 2020 and November 2019, for each site, respectively.

In the European marketplace, amongst others, electrical and electronic equipment is required to comply with the Directive on Waste Electrical and Electronic Equipment of the European Union (EU), which aims to prevent waste by encouraging reuse and recycling, and the EU Directive on Restriction of Use of Certain Hazardous Substances, which restricts the use of various hazardous substances in electrical and electronic products. Our products and certain components of such products “put on the market” in the EU (whether or not manufactured in the EU) are subject to these directives. Additionally, we are required to comply with certain laws, regulations and directives, including TSCA in the United States, as well as REACH and CLP in the EU, governing chemicals. These and similar laws and regulations require, amongst others, the registration, evaluation, authorization and labeling of certain chemicals that we use and ship.

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

Tax regulations also have a material impact on our business, particularly in Israel where we are organized and have one of our headquarters. The following is a summary of certain aspects of the current tax structure applicable to companies in Israel, with special reference to its effect on us (and our operations, in particular). The following also contains a discussion of the Israeli government programs benefiting us. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or the courts will accept the views expressed in this discussion. This discussion does not address all of the Israeli tax provisions that may be relevant to our Company. For a discussion of the Israeli tax consequences related to ownership of our capital stock, please see “Israeli Taxation Considerations” in Item 10.E below.

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

Generally, Israeli companies are subject to corporate tax on their taxable income. As of 2018 and thereafter, the corporate tax rate is 23%. However, the effective tax rate payable by a company that derives income from an “Approved Enterprise”, a “Beneficiary Enterprise” or a “Preferred Enterprise”, a “Special Preferred Enterprise”, a “Preferred Technology Enterprise” or “Special Preferred Technology Enterprise” as further discussed

below, may be considerably lower. See “Law for the Encouragement of Capital Investments” in this Item below. Capital gains derived by an Israeli company are generally subject to the prevailing regular corporate tax rate.

Besides being subject to the general corporate tax rules in Israel, we have also, from time to time, applied for and received certain grants and tax benefits from, and participate in, programs sponsored by the Government of Israel, described below.

*Law for the Encouragement of Capital Investments*

The Law for the Encouragement of Capital Investments, 5719-1959, to which we refer as the Investment Law, provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, which may be either an “Approved Enterprise”, a “Beneficiary Enterprise” or a “Preferred Enterprise”, a “Special Preferred Enterprise”, a “Preferred Technology Enterprise” or “Special Preferred Technology Enterprise”, is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location within Israel of the facility in which the investment and manufacture activity are made. In order to qualify for these incentives, an Approved Enterprise, a Beneficiary Enterprise or, a Preferred Enterprise, a Special Preferred Enterprise, a Preferred Technology Enterprise or Special Preferred Technology Enterprise, is required to comply with the requirements of 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, to which we refer as the 2005 Amendment, as of January 1, 2011, to which we refer as the 2011 Amendment, and as of January 1, 2017, to which we refer as the 2017 Amendment. Pursuant to the 2005 Amendment, tax benefits granted in



**Table of Contents**

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 amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment, yet companies entitled to benefits under the Investment Law as in effect up 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 elect for the benefits of 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 prior to its amendments as well as the relevant changes contained in the new legislations.

*Tax benefits for Approved Enterprises approved before April 1, 2005.*

Under the Investment Law prior to the 2005 Amendment, a company that wished to receive benefits on its investment program that is implemented in accordance with the provisions of the Investment Law, to which we refer as an "Approved Enterprise", had to receive an approval from the Israeli Authority for Investments and Development of the Industry and Economy, to which we refer as the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets.

An Approved Enterprise may elect to forego any entitlement to the cash grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. We have chosen to receive the benefits through the alternative benefits program. Under the alternative benefits program, a company's undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending on the geographic location within Israel of the Approved Enterprise, 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, as detailed below. The benefits commence on the date in which that taxable income is first earned. The benefits period under Approved Enterprise status is limited to 12 years from the year in which the production commenced (as determined by the Investment Center), or 14 years from the year of receipt of the approval as an Approved Enterprise, whichever ends earlier. If a company has more than one Approved Enterprise program or if only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits available under any certificate of approval relate only to taxable income attributable to the specific program and are contingent upon meeting the criteria set out in the certificate of approval. Income derived from activity that is not integral to the activity of the Approved Enterprise will not enjoy tax benefits. Our entitlement to the above benefits is subject to fulfillment of certain conditions, according to the law and related regulations.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a Foreign Investors' Company, to which we refer as an FIC. An FIC eligible for benefits is essentially a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether or not a company qualifies as a FIC is made on an annual basis according to the lowest level of foreign investment during the year. An FIC that has an Approved Enterprise program will be eligible for an extension of the period during which it is entitled to tax benefits under its Approved Enterprise status (so that the benefits period may be up to ten years) and for further tax benefits if the level of foreign investment exceeds 49%. If a company that has an Approved Enterprise program is a wholly owned subsidiary of another company, then the percentage of foreign investments is determined based on the percentage of foreign investment in the parent company.

The corporate tax rates and related levels of foreign investments with respect to an FIC that has an Approved Enterprise program are set forth in the following table:

<b>Percentage of non-Israeli ownership</b>	<b>Corporate Tax Rate</b>
Over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted Approved Enterprise status during the tax exemption period will be subject to tax in respect of the amount of dividend distributed (grossed up to reflect such pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have been otherwise applicable if such income had not been tax-exempted under the alternative benefits program. This rate generally ranges from 10% to 25%, depending on the level of foreign investment in the company in each year, as explained above.

## Edgar Filing: STRATASYS LTD. - Form 20-F

In addition, dividends paid out of income attributed to an Approved Enterprise (or out of dividends received from a company whose income is attributed to an Approved Enterprise) are generally subject to withholding tax at the rate of 15%, or at a lower rate provided 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). The 15% tax rate 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 the 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 an FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

## **Table of Contents**

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program in the first five years of using the equipment. This benefit is an incentive granted by the Israeli government regardless of whether the alternative benefits program is elected.

The benefits available to an Approved Enterprise are subject to the continued fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval, as described above. If a company does not meet these conditions, it would be required to refund the amount of tax benefits, adjusted to the Israeli consumer price index and interest, or other monetary penalty.

We have received the requisite approval, including a final approval, for our Approved Enterprise investment programs, in accordance with the Investment Law. The above-described benefits that accompany these investment programs and our Beneficiary Enterprise investment programs (for which accompanying benefits are described below) have had the effect, both historically and in 2016, 2017 and 2018, of reducing our (and before the Stratasys, Inc.- Objet Ltd. merger, Objet s) effective consolidated tax rates considerably lower than the statutory Israeli corporate tax rate which in 2018 and onwards is set at 23% (the corporate tax rate was 25% and 24% in 2016 and 2017, respectively).

### *Tax benefits under the 2005 Amendment that became effective on April 1, 2005.*

The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to April 1, 2005. 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 Investment Center will continue to grant Approved Enterprise status to qualifying investments. However, the 2005 Amendment 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.

An enterprise that qualifies under the new provisions is referred to as a Beneficiary Enterprise, rather than Approved Enterprise. The 2005 Amendment provides that the approval of the Investment Center is required only for Approved Enterprises that receive cash grants. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive the tax benefits previously available under the alternative benefits program. Rather, 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. A company that has a Beneficiary 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.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) which are generally required to derive 25% or more 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 and which exceeds a minimum amount specified in the Investment Law. Such investment entitles a company to receive a Beneficiary Enterprise status with respect to the investment and may be made over a period of no more than three years ending in the year in which the company chose to have the tax benefits apply to the Beneficiary Enterprise. The benefits period under the Beneficiary Enterprise status is limited to 12 years from the year the company chose to have its tax benefits apply. 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 Beneficiary 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 Beneficiary 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 Beneficiary Enterprise depends on, among other things, the geographic location within Israel of the Beneficiary Enterprise. 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 Beneficiary 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, as explained above.

Dividends paid out of income attributed to a Beneficiary Enterprise will be treated similarly to payment of dividends by an Approved Enterprise under the alternative benefits program. Therefore, dividends paid out of income attributed to a Beneficiary Enterprise (or out of dividends received from a company whose income is attributed to a Beneficiary Enterprise) are generally subject to withholding tax 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 attributed to a Beneficiary Enterprise during the benefits period and actually paid at any time up to 12 years thereafter except with respect to an FIC, in which case the 12-year limit does not apply.

Furthermore, a company qualifying for tax benefits under the 2005 Amendment, which pays a dividend out of income attributed to its Beneficiary Enterprise during the tax exemption period, will be subject to tax in respect of the amount of the dividend distributed (grossed-up to

## Edgar Filing: STRATASYS LTD. - Form 20-F

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.

As of December 31, 2018, we had accumulated tax-exempt income of approximately \$238.3 million that is attributable to our various Approved and Beneficiary Enterprise programs. If such tax exempt income were to be distributed, it would be taxed at the reduced corporate tax rate applicable to such income, which would have amounted to approximately \$23.8 million of tax liability as of December 31, 2018.

**Table of Contents**

The benefits available to a Beneficiary Enterprise are subject to the continued fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it would be required to refund the amount of tax benefits, as adjusted by the Israeli consumer price index and interest, or other monetary penalty.

*Tax benefits under the 2011 Amendment that became effective on January 1, 2011.*

The 2011 Amendment canceled the availability of the benefits granted 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. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity, or (ii) a limited partnership that: (a) was registered under the Israeli Partnerships Ordinance and; (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company was entitled to a reduced corporate tax rate of 15% with respect to its preferred income attributed to its Preferred Enterprise in 2011 and 2012, unless the Preferred Enterprise was located in a certain development zone, in which case the rate was 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was increased to 16% and 9%, respectively, in 2014 until 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for Preferred Enterprise which is located in a certain 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 for Special Preferred Enterprise includes less stringent conditions.

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 such dividends are subsequently distributed 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). In 2017-2019, 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 current 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, 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) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, that had participated in an alternative benefits program, 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 Beneficiary 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.

We have examined the possible effect, if any, of these provisions of the 2011 Amendment on our financial statements and have decided, at this time, not to opt 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 was 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. 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 Innovation (previously known as the Israeli Office of the Chief Scientist), to which we refer as IIA.

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 NATI. 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.

**Table of Contents**

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. If such dividends are distributed to a foreign company and other conditions are met, the withholding tax rate will be 4%.

We are examining the impact of the 2017 Amendment and the degree to which we will qualify as a Preferred Technology Enterprise or Special Preferred Technology Enterprise, and the amount of Preferred Technology Income or other benefits that we may receive from the 2017 Amendment.

**C. Organizational Structure.**

Our corporate structure includes Stratasys Ltd., our Israeli parent company, and the following main active wholly-owned subsidiary entities: Stratasys, Inc., a Delaware corporation, which was formerly a publicly held company and which became our indirect, wholly-owned subsidiary as a result of the Stratasys, Inc.- Objet Ltd. merger; Baccio Corporation (formerly known as Cooperation Technology Corporation), to which we refer as MakerBot, a Delaware corporation which is the direct parent company of MakerBot Industries, LLC, which we acquired in August 2013; Stratasys Direct, Inc. (our parts service business unit), a California corporation; Stratasys AP Limited, a Hong Kong limited company, which together with several other subsidiaries (including Stratasys Japan Co. Ltd., our Japanese subsidiary, and Stratasys Shanghai Ltd., our Chinese subsidiary), carries out most of our operations in the Asia Pacific region; and Stratasys GMBH, a German limited liability company, which together with other subsidiaries (including Stratasys Schweiz AG (Stratasys Switzerland Ltd.), our Swiss subsidiary) carries out our European operations. We also formed Stratasys Latin America Representacao De Equipamentos Ltd., a Brazilian subsidiary, which has commenced our Brazilian operations. Please see the list of subsidiaries appended to this annual report as Exhibit 8 for a complete list of our subsidiaries as of the date of this annual report.

**D. Property, Plants and Equipment.**

We have dual headquarters, in Eden Prairie, Minnesota and Rehovot, Israel.

Our Eden Prairie, Minnesota headquarters (near Minneapolis) is comprised of executive offices and production facilities that encompassed, as of December 31, 2018, approximately 304,616 square feet, of which we owned 223,070 square feet, in four buildings. Those buildings served the following purposes: system assembly, inventory storage, operations and sales support; manufacturing for one of our Stratasys Direct Manufacturing paid parts service locations; research and development, filament manufacturing, administrative, marketing and sales activities; and expansion of our production capacity for systems and consumables.

Our new building complex under construction in Rehovot, Israel, which contains two buildings, is situated on a property that we purchased in 2015 and encompasses approximately 294,491 square feet. It houses our Israeli headquarters, research and development facilities and certain marketing activities. We entered the first building in January 2017 and are currently constructing the second building.

**Table of Contents**

As of December 31, 2018, we leased office space (except with respect to our Eden Prairie headquarters facilities and our Rehovot, Israel and Kiryat Gat, Israel facilities, where we own the property) for various purposes, as set forth in the table below. Unless otherwise stated, all of our facilities are fully utilized. Our material tangible fixed assets include, among other things, the properties listed below.

<b>Location:</b>	<b>Primary Usage:</b>	<b>Area (Sq. Feet)</b>
<b>Americas:</b>		
Eden Prairie, Minnesota	U.S. headquarters	304,616
Valencia, California	Offices and warehouses	71,286
San Diego, California	Facilities	56,383
River Falls, Wisconsin	Offices	40,998
Belton, Texas	Offices and warehouses	40,000
Brooklyn, New York	Offices and warehouses	36,950
Austin, Texas	Facilities	33,178
Other facilities in Americas	Office space and warehouses	96,211
<b>Europe and the Middle East:</b>		
Rehovot, Israel	Israeli headquarters	337,675 <sup>(1)</sup>
Kiryat Gat, Israel	Factories and warehouses	267,783
Rheinmünster, Germany	Europe main office	55,027
Swiss office	Office space	205
Other facilities in EMEA	Sales Offices	11,189
<b>Asia Pacific:</b>		
Hong Kong	Asia Pacific main office	9,564
Japan	Sales Office	11,403
China	Sales Office	15,609
Other facilities in Asia Pacific	Office space	16,505

This square footage includes the area of the two buildings of our new Israel headquarters in Rehovot, Israel. Only one such building is (1) currently inhabited by us.

**ITEM 4A. UNRESOLVED STAFF COMMENTS.**

None.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in this annual report. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Cautionary Note Regarding Forward-Looking Statements" and in Item 3.D "Key Information – Risk Factors", above.*

**A. Operating Results.****Overview**

We are a leading global provider of applied additive technology solutions for industries including aerospace, automotive, healthcare, consumer products and education. We focus on customers' business requirements and seek to create new value for our customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. We operate a 3D printing ecosystem of solutions and expertise, comprised of advanced materials; software with voxel level control; precise, repeatable and reliable fused deposition modeling 3D printers (utilizing proprietary FDM™ technology) and inkjet-based 3D printers (utilizing proprietary PolyJet™ technology); application-based services; on-demand parts and key partnerships. We strive to ensure that our solutions are integrated seamlessly into each customer's evolving workflow. Our applications are industry-specific and geared towards accelerating business processes, optimizing value chains and driving business performance improvements. Our customers range from individuals and smaller businesses to large, global enterprises, and we include a number of Fortune 100 companies among our customers.



Our 3D printers include systems ranging from entry-level desktop 3D printers to systems for rapid prototyping, or RP, and large production systems for direct digital manufacturing, or DDM. We also develop, manufacture and sell materials for use with our systems and provide related services offerings. We offer a powerful range of additive manufacturing materials, including clear, rubberlike and biocompatible photopolymers, and tough high-performance thermoplastics. We believe that the range of 3D printing consumable materials that we offer, consisting of 59 FDM™ cartridge-based materials, 44 PolyJet cartridge-based materials, 158 non-color digital materials, and over 500,000 color variations, is the widest in the industry. Our service offerings include Stratasys Direct Manufacturing printed parts services, as well as our professional services.

## **Table of Contents**

We conduct our business globally and provide products and services to our global customer base through our offices in North America and internationally, including: Baden-Baden, Germany; Shanghai, China; and Tokyo, Japan, as well as through our worldwide network of approximately 160 agents and resellers. Additionally, through our MakerBot subsidiary, we deploy an online sales channel. We have approximately 2,200 employees and hold more than 1,400 granted patents or pending patent applications worldwide.

### **Key measures of our performance**

#### ***Revenues***

Our revenues result primarily from sales of (i) our products, which include both our AM systems and related consumable materials, (ii) provision of related services and (iii) our direct manufacturing service. We generate revenues and deliver services principally through the following channels:

sales to resellers, who purchase and resell our products and who provide support services for our printing systems;

sales of systems that are marketed by independent sales agents, pursuant to which we sell directly to end-users, pay commissions to such agents, and directly handle the sale of consumables and provision of support services; and

sales of systems (and all related products and services) as well as our direct manufacturing solutions that we provide to our customers directly.

#### ***Product revenues***

Product revenues are influenced by a number of factors, including, among other things, (i) the adoption rate of our products, (ii) end-user product design application and manufacturing activity, and (iii) the capital expenditure budgets of end-users and potential end-users, all of which may be significantly influenced by macroeconomic factors. Product revenues are also impacted by the mix of 3D printers that we sell. Purchases of our 3D printing and production systems, especially our higher-end, higher-priced systems, typically involve longer sales cycles.

Product revenues also depend upon the volume of consumables that we sell. Sales of our consumable materials are linked to the number of AM systems that are installed and active worldwide. Sales of consumables are also driven by system usage, which is generally a function of the size of the particular system and the level of design and manufacturing activity and budget of the particular end-user. Larger systems generally use greater amounts of consumables due to their greater capacity and the higher levels of design and production.

#### ***Services revenues***

Services revenues derive from (i) maintenance contracts and initial systems warranty; (ii) direct manufacturing paid-parts services; and (iii) other professional service contracts. In addition, in connection with direct sales, we generally charge separately for installation and training. Additional services revenues are generated from services contracts most often entered into directly with end-users subsequent to the expiration of the initial warranty period.

#### ***Costs of revenues***

Our costs of revenues consist of costs of products and costs of services. Costs of products consist primarily of components and subassemblies purchased for the manufacture of our AM systems and raw materials, such as thermoplastic and photopolymer materials, for the manufacture of our consumables, as well as any royalties paid with respect to sales of certain of those consumables. Costs of products also include manufacturing and manufacturing-related labor costs, indirect production costs and depreciation, as well as, amortization expense related mainly to developed technology assets acquired as part of our business combinations.

Our costs of services revenues consist primarily of costs of our service personnel, material and other production costs of our direct manufacturing service business and installation costs which include engineers dedicated to on-site training and support and travel costs of these engineers. Both costs of products and costs of services include related facilities costs.

Our most significant components of costs of revenues are costs of materials used for our products, wages and related benefits costs, which together accounted for approximately 78% of our total direct cost of sales for the year ended December 31, 2018. An additional significant component of our costs of revenues is the amortization expense that we primarily incur in connection with developed technology assets acquired as part of our business combinations. These amortization expenses vary based on the timing and type of acquisitions and estimated useful lives of the respective intangible assets. These amortization expenses were \$21 million, \$24 million and \$43 million for the years ended December 31,

2018, 2017 and 2016, respectively.

For the year ended December 31, 2018, a hypothetical 10% rise in commodity prices for raw materials would have caused an approximate \$15 million increase in costs of revenues in our Consolidated Statements of Operations and Comprehensive Loss. As to wages and related benefits, a 10% increase in wages due to wage inflation would have caused an approximate \$5 million increase in costs of revenues in our Consolidated Statements of Operations and Comprehensive Loss. During 2018, we did not notice particular trends that changed, or were expected to change in the near future, the absolute or relative significance of the components of our costs of revenues in a material manner. We also believe that inflation has not had a material effect on our operations or on our financial condition during the three most recent fiscal years.

## **Table of Contents**

Currently, we do not foresee a significant change in either the raw materials used for production or wage inflation that would materially impact our business. For further information, please see “Item 11. Quantitative And Qualitative Disclosures About Market Risk” in this annual report.

### ***Gross profit***

The gross profit and gross margin for our products are influenced by a number of factors. The most important of these is the mix of our products sold. Specifically, the gross margins on our higher-end AM systems, as well as on our consumables, are typically higher than the gross margins on our entry-level products and MakerBot desktop printers. Accordingly, an increase in the share of revenues of our entry-level products out of total revenues could cause our profit margins to decrease. Furthermore, we believe that as our worldwide installed base of AM systems increases, subsequent sales of our proprietary consumables will also increase. We also seek to reduce our costs of revenues by improving our ability to use less costly components, better management of our inventories levels and increasing manufacturing efficiencies in the production of our systems. In addition, we will also seek to achieve lower material costs and leverage our overall capabilities in our direct manufacturing service business.

Products gross margins are also impacted by the mix of revenues generated from sales to resellers based in different geographical areas as opposed to sales that are facilitated by independent sales agents or directly by us.

Service gross margins are influenced mainly by the volume of revenues generated from our direct manufacturing service business as well as the ratio of service engineers to our installed base in a given geographic area.

### ***Operating expenses***

Our operating expenses for 2018 consisted of (i) research and development expenses, and (ii) selling, general and administrative expenses.

#### ***Research and development expenses***

Our research and development activities consist of projects aimed at developing new printing systems and materials and projects aimed at enhancing the capabilities of our existing product lines, as well as significant technology platform and applications, developments for our current technologies, including our integrated software. We also seek to develop disruptive technologies and other process improvement solutions in the additive manufacturing ecosystem. Our research and development expenses consist primarily of employee compensation and employee-related personnel expenses, materials, laboratory supplies, costs for related software and costs for facilities. Expenditures for research, development and engineering of products are expensed as incurred. Our research and development efforts are essential to our future growth and our ability to remain competitive in the AM market. We work closely with existing and potential customers, distribution channels and major resellers, who provide significant feedback for product development and innovation.

We are also entitled to reimbursements from certain government funding plans. These reimbursements are recognized as a reduction of expenses as the related cost is incurred. We are not required to pay royalties on sales of products developed using our government funding.

#### ***Selling, general and administrative expenses***

Our selling, general and administrative expenses include employee compensation and employee-related expenses for marketing, sales and other sales-operation positions, and for managerial and administrative functions, including executive officers, accounting, legal, information technology and human resources. This category of expenses also covers commissions, advertising and promotions expenses, professional service fees, respective depreciation, amortization expenses related to certain intangible assets, as well as associated overhead.

Commissions consist of sales-based commissions to independent sales agents and internal sales personnel. Commission rates vary, depending on the geographic location of the agent, type of products sold, and the degree of achievement of certain performance targets. Our advertising and promotion expenses consist primarily of media advertising costs, trade and consumer marketing expenses and public relations expenses which aim to strengthen the leadership of our brand in key vertical markets.

Facilities costs that are included in our selling, general and administrative expenses include an allocated portion of the occupancy costs for our facilities in countries where sales, marketing and administrative personnel are located. Professional service fees for accounting and legal services are also included in selling, general and administrative expenses.

## **2018 Financial Highlights**

Significant highlights of our financial performance in 2018 included:

Revenues decreased by \$5.1 million, or 0.8%, compared to 2017. The decrease primarily reflects a decrease in systems revenues, which was partially offset by an increase in consumables and services revenues.

Operating expenses decreased by \$19.2 million, or 5.4% compared to 2017. The decrease primarily reflects the gain resulting from our divestment of Solidcape and our focus on achieving greater operating efficiencies in our selling, general and administrative expenses.

Gain of \$13.5 million that resulted from the divestment of our equity minority interests in LPW for total consideration of \$33.6 million. The gain was recorded in the consolidated Statements of Operations and Comprehensive Loss under share in profits (losses) of associated companies.

Net loss attributable to Stratasys amounted to \$11.0 million in 2018 or diluted loss per share of \$0.22, compared to net loss attributable to Stratasys of \$40.0 million, or diluted loss per share of \$0.75, in 2017.

Continued strong cash flows provided by operating activities, which amounted to \$63.7 million, an increase of \$2.0 million, or 3.2%, compared to 2017. Total cash and cash equivalents amounted to \$393.2 million as of December 31, 2018, an increase of \$64.4 million compared to December 31, 2017.

**Table of Contents****Results of Operations**

We are providing within this section a supplemental discussion that compares historical statement of operations data in accordance with accounting principles generally accepted in the United State of America, or GAAP, for the years ended December 31, 2018, 2017 and 2016.

The following table sets forth certain financial data derived from our consolidated statements of operations and comprehensive loss, presented as percentages of our revenues for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenues	100.0%	100.0%	100.0%
Cost of sales	51.0%	51.7%	52.8%
Gross profit	49.0 %	48.3 %	47.2 %
Research and development, net	14.9%	14.4%	14.5%
Selling, general and administrative	35.4 %	38.5 %	45.7 %
Operating loss	-1.3%	-4.6%	-12.9%
Financial income, net	0.1 %	0.2 %	0.1 %
Loss before income taxes	-1.2%	-4.4%	-12.8%
Income taxes expense (benefit)	0.7 %	1.4 %	-1.4 %
Share in profits (losses) of associated companies	0.3%	-0.3%	-0.1%
Net loss	-1.7 %	-6.1 %	-11.5 %
Net loss attributable to non-controlling interests	0.0%	-0.1%	-0.1%
Net loss attributable to Stratasy Ltd.	-1.7 %	-6.0 %	-11.5 %

**Discussion of Results of Operations****Revenues**

Our products and services revenues for the last three years, as well as the percentage change from year to year, were as follows:

	<b>Year Ended December 31,</b>			<b>% Change 2018-2017</b>	<b>% Change 2017-2016</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>		
	<b>U.S. \$ in thousands</b>				
Products	\$ 456,504	\$ 474,286	\$ 479,031	-3.7%	-1.0%
Services	206,733	194,076	193,427	6.5%	0.3%
	\$ 663,237	\$ 668,362	\$ 672,458	-0.8 %	-0.6 %

Our total consolidated revenues in 2018 were \$663.2 million, a decrease of \$5.1 million, or 0.8%, compared to 2017. The decrease primarily reflects a decrease in products revenues, partially offset by an increase in services revenues, as further discussed below.

**Products Revenues****2018 Compared to 2017**

Revenues derived from products (including AM systems and consumable materials) decreased by \$17.8 million in 2018, or 3.7%, as compared to 2017. The decrease in products revenues was driven by a decrease in our systems revenues that was partially offset by an increase in our consumables revenues. Our products revenues were also impacted by the divestiture of certain entities in 2018 and the timing of orders from our resellers and customers. Excluding the impact of the divestiture of certain entities, products revenues decreased by \$12.0 million in 2018, or 2.6%, as compared to 2017.

The decrease in systems revenues reflects a decrease of our lower-end systems revenues and lower recognized systems revenues of our former subsidiary Solidscape, which we divested during the third quarter of 2018. The decrease in systems revenues was partially offset by an increase of our higher-end systems revenues.

**Table of Contents**

Consumables revenues increased in 2018 by 2.2% compared to 2017. The increase in consumables revenues reflects the utilization of our installed base of systems and was partially offset by lower recognized consumables revenues of Solidscape which we divested during the third quarter of 2018.

**2017 Compared to 2016**

Revenues derived from products (including AM systems and consumable materials) decreased by \$4.7 million in 2017, or 1.0%, as compared to 2016. The decrease in products revenues was driven by a decrease in our systems revenues that was partially offset by an increase in our consumables revenues.

**Services Revenues****2018 Compared to 2017**

Services revenues (including SDM, service type warranty and maintenance contracts, spare parts and other services) increased by \$12.7 million in 2018, or 6.5%, as compared to 2017. Within services revenues, customer support revenues, which includes revenues generated mainly by service type warranty and maintenance contracts on our systems, increased by 7.5%, reflecting the growth in our installed base of systems and an improvement in our service contract attach rate as well as an increase in SDM revenues.

**2017 Compared to 2016**

Services revenues (including SDM, maintenance and other services) increased by \$0.6 million in 2017, or 0.3%, as compared to 2016. Within services revenues, customer support revenue increased by 6.3%.

**Revenues by Region**

Revenues and the percentage of revenues by region for the last three years, as well as the percentage change in revenues in each such region reflected thereby, were as follows:

	Year Ended December 31, 2018		2017		2016		2018-2017 Change in %	2017-2016 Change in %
	U.S. \$ in	% of net	U.S. \$ in	% of net	U.S. \$ in	% of net		
	thousands	sales	thousands	sales	thousands	sales		
Americas*	\$ 409,741	61.8%	\$ 413,326	61.8%	\$ 411,536	61.2%	-0.9%	0.4%
EMEA	147,162	22.2%	148,279	22.2%	137,924	20.5%	-0.8%	7.5%
Asia Pacific	106,334	16.0%	106,757	16.0%	122,998	18.3%	-0.4%	-13.2%
	\$ 663,237	100.0%	\$ 668,362	100.0%	\$ 672,458	100.0%	-0.8%	-0.6%

\*Represent the United States, Canada and Latin America

**2018 Compared to 2017**

Revenues in the Americas region decreased by \$3.6 million, or 0.9%, to \$409.8 million in 2018 compared to \$413.3 million in 2017. The decrease reflects lower systems revenues, which was partially driven by the divestiture of Solidscape. The decrease was partially offset by higher consumables revenues and services revenues.

Revenues in the EMEA region decreased by \$1.1 million, or 0.8%, to \$147.2 million in 2018 compared to \$148.3 million in 2017. The decrease reflects lower systems revenues, partially offset by higher consumables revenues and services revenues. In local currencies terms, revenues in the EMEA region during 2018 decreased by 4.4% as compared to 2017. Revenues in the EMEA region were favorably impacted by approximately \$5.4 million, on a constant currency basis when using prior period's exchange rates.

Revenues in the Asia Pacific region decreased by \$0.4 million, or 0.4%, to \$106.3 million in 2018 compared to \$106.8 million in 2017. The decrease was primarily due to lower products revenues, partially offset by slightly higher services revenues.

**2017 Compared to 2016**

## Edgar Filing: STRATASYS LTD. - Form 20-F

Revenues in the Americas region increased by \$1.8 million, or 0.4% to \$413.3 million in 2017 compared to \$411.5 million in 2016.

Revenues in the EMEA region increased by \$10.4 million, or 7.5%, to \$148.3 million in 2017 compared to \$137.9 million in 2016.

Revenues in the Asia Pacific region decreased by \$16.2 million, or 13.2%, to \$106.8 million in 2017 compared to \$123.0 million in 2016.



**Table of Contents****Gross Profit**

Gross profit from our products and services for the last three years, as well as the percentage change from year to year, were as follows:

	Year Ended December 31,			2018-2017 Change in %	2017-2016 Change in %
	2018	2017	2016		
	U.S. \$ in thousands				
<b>Gross profit attributable to:</b>					
Products	\$ 252,882	\$ 255,266	\$ 244,378	-0.9%	4.5 %
Services	72,342	67,511	72,928	7.2%	-7.4%
	\$ 325,224	\$ 322,777	\$ 317,306	0.8 %	1.7 %

Gross profit as a percentage of revenues for our products and services for the last three years, as well as the percentage change from year to year, were as follows:

	Year Ended December 31,			2018-2017 Change in %	2017-2016 Change in %
	2018	2017	2016		
<b>Gross profit as a percentage of revenues from:</b>					
Products	55.4%	53.8%	51.0%	2.9%	5.5%
Services	35.0%	34.8%	37.7%	0.6 %	-7.7 %
	49.0%	48.3%	47.2%	1.5%	2.3%

**2018 Compared to 2017**

Gross profit attributable to products revenues decreased by \$2.4 million, or 0.9%, to \$252.9 million in 2018, as compared to \$255.3 million in 2017. Gross profit attributable to products revenues as a percentage of revenues increased to 55.4% in 2018 compared to 53.8% in 2017.

The increase in gross profit attributable to products revenues as a percentage of revenues was primarily driven by product mix, as consumables revenues constituted a greater percentage of our total products revenues in 2018. Additional contributing factors to the increase in gross profit attributable to products revenues as a percentage of revenues were the increase in revenues from our higher margin, higher-end systems, as well as lower stock-based compensation and amortization expenses.

Gross profit attributable to services revenues increased by \$4.8 million, or 7.2%, to \$72.3 million in 2018 compared to \$67.5 million in 2017. Gross profit from services as a percentage of services revenues in 2017 increased to 35.0% compared to 34.8% in 2017. Our gross profit from services revenues was impacted by the mix between our customer support service business and our SDM business. The gross profit from services as a percentage of services revenues increased due favorable mix in the different technologies and services offerings, as well as the benefits of economies of scale, in light of the increase in services revenues.

**2017 Compared to 2016**

Gross profit attributable to products sales increased by \$10.9 million, or 4.5%, to \$255.3 million in 2017 compared to \$244.4 million in 2016. Gross profit attributable to products sales as a percentage of revenues increased to 53.8% in 2017 compared to 51.0% in 2016.

Gross profit attributable to services revenues decreased by \$5.4 million, or 7.4%, to \$67.5 million in 2017 compared to \$72.9 million in 2016. Gross profit from services as a percentage of services revenues in 2017 decreased to 34.8% compared to 37.7% in 2016.

**Operating Expenses**

The amount of each type of operating expense for the last three years, as well as the percentage change between such annual periods, and total operating expenses as a percentage of our total revenues in each such annual period, were as follows:

	Year Ended December 31,			2018-2017 Change in %	2017-2016 Change in %
	2018	2017	2016		
	U.S. \$ in thousands				
Research and development, net	\$ 98,964	\$ 96,237	\$ 97,778	2.8 %	-1.6 %
Selling, general & administrative	235,107	257,063	306,241	-8.5%	-16.1%

Edgar Filing: STRATASYS LTD. - Form 20-F

	\$ 334,071	\$ 353,300	\$ 404,019	-5.4 %	-12.6 %
As a percentage of revenue	50.4%	52.9%	60.1%		
	41				

---

**Table of Contents****2018 Compared to 2017**

Research and development expenses, net increased by \$2.7 million, or 2.8%, in 2018 compared to 2017. Research and development expense, net as a percentage of revenues increased to 14.9% in 2018 compared to 14.5% in 2017.

Our research and development expenses were impacted by the timing of spending on our projects, based on our portfolio management, product development life cycle, as well as payroll-related expenses. We continue to invest in strategic long-term initiatives that include advancements in our core FDM and PolyJet technologies, as well as our new metal additive manufacturing platform, advanced composite materials, software and development of new applications which will enhance our current solutions offerings.

Selling, general and administrative expenses in 2018 decreased by \$22.0 million, or 8.5%, to \$235.1 million, compared to \$257.0 million in 2017. The amount of selling, general and administrative expenses constituted 35.4% of our revenues in 2018, as compared to 38.5% in 2017. The decrease in our selling, general and administrative expenses was primarily driven by the gain of \$7.0 million from the Solidscape divestment (which offset selling, general and administrative expenses) and the exclusion of Solidscape's operations commencing the third quarter of 2018, lower commissions recorded in 2018, as well as a gain of \$1.6 million that we realized from the sale of one of our facilities in Minnesota (which also offset selling, general and administrative expenses). The decrease in our selling, general and administrative expenses was partially offset by higher marketing expenses.

**2017 Compared to 2016**

Research and development expenses, net decreased by \$1.5 million, or 1.6%, in 2017 compared to 2016. Research and development expenses, net as a percentage of revenues remained relatively flat in 2017, going from 14.5% in 2016 to 14.4% in 2017.

Selling, general and administrative expenses in 2017 decreased by \$49.2 million, or 16.1%, to \$257.1 million, compared to \$306.2 million in 2016. Selling, general and administrative expenses were 38.5% as a percentage of revenues in 2017, as compared to 45.5% in 2016. The decrease in our selling, general and administrative expenses was primarily due to a \$21.8 million decrease in intangible assets amortization and long-lived assets impairment expenses, as well as lower commissions, and was also driven by certain cost-reduction efforts.

**Operating Loss**

Operating loss and operating loss as a percentage of our total revenues for the last three years, as well as the percentage change in operating loss between those years, were as follows:

	Year Ended December 31,			2018-2017	2017-2016
	2018	2017	2016	Change in %	Change in %
	U. S. \$ in thousands				
Operating loss	\$ (8,847)	\$ (30,523)	\$ (86,713)	-71.0%	-64.8%
As a percentage of revenue	-1.3%	-4.6%	-12.9%		

**2018 Compared to 2017**

Operating loss for the year ended December 31, 2018 was \$8.8 million as compared to an operating loss of \$30.5 million for the year ended December 31, 2017. The decrease in operating loss was primarily attributable to the decrease in our operating expenses, as discussed above.

**2017 Compared to 2016**

Operating loss for the year ended December 31, 2017 was \$30.5 million as compared to an operating loss of \$86.7 million for the year ended December 31, 2016. The decrease in operating loss was primarily attributable to the decrease in our operating expenses, as discussed above.

**Financial income, net****2018 Compared to 2017**

Financial income, net, which was primarily comprised of foreign currencies effects, interest income and interest expense, amounted to \$0.6 million for the year ended December 31, 2018, compared to \$1.0 million for the year ended December 31, 2017.

## Edgar Filing: STRATASYS LTD. - Form 20-F

Our financial income, net was impacted by the interest earned on our cash balances which was partially offset by the interest expenses related to our outstanding bank loan balances. In addition, our financial income, net was impacted by translation of foreign currencies transactions resulting from changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the Euro). These effects were partially offset by our derivatives and hedging activity in 2018.

**Table of Contents****2017 Compared to 2016**

Financial income, net, amounted to \$1.0 million for the year ended December 31, 2017, compared to \$0.4 million for the year ended December 31, 2016.

**Income Taxes**

Income taxes and income taxes as a percentage of net income before taxes for the last three years, as well as the percentage change in income taxes between those years, were as follows:

	Year Ended December 31,			2018-2017 Change in %	2017-2016 Change in %
	2018	2017	2016		
	U.S. \$ in thousands				
Income taxes	\$ 4,736	\$ 9,273	\$ (9,446)	-48.9%	-198.2%
As a percentage of loss before income taxes	-57.7 %	-31.5 %	% 10.9 %		

**2018 Compared to 2017**

We had a negative effective tax rate of 57.7% for the year ended December 31, 2018 as compared to a negative effective tax rate of 31.5% for the year ended December 31, 2017. Our effective tax rate was primarily impacted by the changes in the geographic mix of foreign taxable income and loss as well as the impact of the valuation allowance on our U.S tax losses.

Our effective tax rate is based on recurring factors, including the geographic mix of foreign taxable income and loss, as well as nonrecurring items that may not be predictable.

For a full reconciliation of our effective tax rate to the Israeli statutory rate of 23% and for further explanation of our provision for income taxes, refer to Note 9 to our consolidated financial statements included in Item 18 of this annual report.

**2017 Compared to 2016**

We had a negative effective tax rate of 31.5% for the year ended December 31, 2017 as compared to 10.9% tax rate for the year ended December 31, 2016.

**Share in Profits (Losses) of Associated Companies****2018 Compared to 2017**

Share in profits (losses) of associated companies reflects our proportionate share in the equity interests in certain entities which are accounted under the equity method of accounting. Our share in profits of associated companies in 2018 was \$1.7 million, compared to share in losses of associated companies of \$1.7 million in 2017. Our share in profits of associated companies in 2018 was favorably impacted by net gain of \$13.5 million resulting from our divestment of LPW, which was partially offset by our proportionate share in the net loss of LPW as well as in-process research and development (IPR&D) write-offs in other equity method investments. Our share in losses of associated companies in 2017 primarily reflects our proportionate share in the net loss of LPW.

**2017 Compared to 2016**

Share in losses of associated companies was \$1.7 million in 2017, compared to \$0.7 million in 2016. The increase of our share in losses of associated companies reflects an increased net loss of LPW.

**Table of Contents****Net Loss and Net Loss Per Share Attributable to Stratasys Ltd.**

Net loss, net loss as a percentage of our total revenues and diluted net loss per share, for the last three years, as well as the percentage change in net loss between those years, were as follows:

	Year Ended December 31,			2018-2017 Change in %	2017-2016 Change in %
	2018	2017	2016		
	U. S. \$ in thousands				
Net loss attributable to Stratasys Ltd.	\$ (10,964)	\$ (39,981)	\$ (77,219)	-72.6 %	-48.2 %
As a percentage of revenues	-1.7%	-6.0%	-11.5%		
Diluted net loss per share	\$ (0.22 )	\$ (0.75 )	\$ (1.48 )	-70.7 %	-49.1 %

**2018 Compared to 2017**

Net loss attributable to Stratasys Ltd. for the year ended December 31, 2018 was \$11.0 million as compared to \$40.0 million for the year ended December 31, 2017. The decrease in net loss attributable to Stratasys Ltd. was primarily attributable to a decrease in our operating expenses, and to a decrease income taxes expense.

Diluted loss per share for the years ended December 31, 2018 and 2017 was \$0.22 and \$0.75, respectively. The weighted average, fully-diluted number of shares outstanding for the year ended December 31, 2018 was 53.8 million, compared to 53.0 million for the year ended December 31, 2017.

**2017 Compared to 2016**

Net loss attributable to Stratasys Ltd. for the year ended December 31, 2017 was \$40.0 million as compared to \$77.2 million for the year ended December 31, 2016. Diluted loss per share for the years ended December 31, 2017 and 2016 was \$0.75 and \$1.48, respectively. The weighted average fully-diluted number of shares outstanding for the year ended December 31, 2017 was 53.0 million, compared to 52.6 million for the year ended December 31, 2016.

**Goodwill impairment assessment for the year ended December 31, 2018**

We performed a quantitative assessment for goodwill impairment for our Stratasys-Objet reporting unit and concluded that the fair value of the Stratasys-Objet reporting unit exceeded its carrying amount by approximately 7.6%, with a carrying amount of goodwill assigned to this reporting unit in an amount of \$386 million.

When evaluating the fair value of the Stratasys-Objet reporting unit under the income approach, we used a discounted cash flow model which utilized Level 3 measures that represent unobservable inputs. Key assumptions used to determine the estimated fair value include: (a) internal cash flows forecasts for 5 years following the assessment date, including expected revenue growth, costs to produce, operating profit margins and estimated capital needs; (b) an estimated terminal value using a terminal year long-term future growth rate of 3.1% determined based on the growth prospects of the reporting unit; and (c) a discount rate of 14% which reflects the weighted-average cost of capital adjusted for the relevant risk associated with the Stratasys-Objet reporting unit's operations and the uncertainty inherent in our internally developed forecasts.

In order to assess the reasonableness of our cash flow projections used for our goodwill impairment analysis, we compared the aggregate fair value of our reporting units to our market capitalization and calculated the implied control premium. We calculated our market capitalization using an average price of our shares, as we believe that it is more indicative to our fair value than using the December 31, 2018 price of our shares, due to the volatility in the stock markets during December 2018 and the subsequent significant positive correction. We believe that our fair value assessment is reasonably supported by our calculated market capitalization.

Actual results may differ from those assumed in our valuation method. It is reasonably possible that our assumptions described above could change in future periods. If any of these were to vary materially from our plans, we may record impairment of goodwill allocated to this reporting unit in the future. A hypothetical decrease in the growth rate of 1% or an increase of 1% to the discount rate would have reduced the fair value of Stratasys-Objet reporting unit by approximately \$48 million and \$80 million, respectively.

Based on our assessment as of December 31, 2018, no goodwill was determined to be impaired.

Determining the fair value of the Stratasys-Objet reporting unit requires significant judgment, including judgments about the appropriate discount rates, terminal growth rates, weighted average costs of capital and the amount and timing of projected future cash flows. We will continue to monitor the fair value of our Stratasys-Objet reporting unit to determine whether events and changes in circumstances such as further

## Edgar Filing: STRATASYS LTD. - Form 20-F

deterioration in the business climate or operating results, significant decline in the Company's share price, changes in management's business strategy or downward changes of our cash flows projections, warrant further interim impairment testing. For further information, refer to note 7 to our consolidated financial statements included in Item 18 of this annual report.

**Table of Contents****Non-GAAP Financial Measures**

The following non-GAAP data, which excludes certain items as described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures are useful information for investors and shareholders of our company in gauging our results of operations (x) on an ongoing basis after excluding merger, acquisition and divestments related expense or gains and reorganization-related charges or gains, and (y) excluding non-cash items such as stock-based compensation expenses, acquired intangible assets amortization, including intangible assets amortization related to equity method investments, impairment of long-lived assets, changes in fair value of obligations in connection with acquisitions and the corresponding tax effect of those items. We also exclude, when applicable, non-cash and non-recurring significant tax charges or benefits that relate to prior periods which we do not believe are reflective of ongoing business and operating results. These non-GAAP adjustments either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the statement of operations, as assessed by management. These non-GAAP financial measures are presented to permit investors to more fully understand how management assesses our performance for internal planning and forecasting purposes. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all items indicated above during a period, which may not provide a comparable view of our performance to other companies in our industry. Investors and other readers should consider non-GAAP measures only as supplements to, not as substitutes for or as superior measures to, the measures of financial performance prepared in accordance with GAAP. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table below.

**Reconciliation of GAAP and Non-GAAP Results of Operations**

	<b>Twelve Months Ended December 31,</b>		
	<b>2018</b>	<b>Non-GAAP</b>	<b>2018</b>
	<b>GAAP</b>	<b>Adjustments</b>	<b>Non-GAAP</b>
	<b>U.S. dollars and shares in thousands</b>		
	<b>(except per share amounts)</b>		
Gross profit (1)	\$ 325,224	\$ 22,351	\$ 347,575
Operating income (loss) (1,2)	(8,847 )	45,324	36,477
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(10,964 )	38,782	27,818
Net income (loss) per diluted share attributable	\$ (0.22 )	\$ 0.74	\$ 0.52
(1) Acquired intangible assets amortization expense		20,866	
Non-cash stock-based compensation expense		1,474	
Reorganization and other related costs		11	
		22,351	
(2) Acquired intangible assets amortization expense		10,161	
Impairment charges of intangible assets and other long-lived assets		4,797	
Non-cash stock-based compensation expense		14,212	
Gain from divestiture, net of transaction costs		(7,016 )	
Reorganization and other related costs		691	
Merger and acquisition related expense		128	
		22,973	
		45,324	
(3) Corresponding tax effect		(808 )	
Gain from equity method divestment, related write-offs and amortization		(5,734 )	
		\$ 38,782	
(4) Weighted average number of ordinary shares outstanding- Diluted	53,751		53,898



**Table of Contents**

	Year ended December 31,		
	2017	Non-GAAP	2017
	GAAP	Adjustments	Non-GAAP
	(U.S. dollars and shares in thousands, except per share amounts)		
Gross profit (1)	\$ 322,777	\$ 26,860	\$ 349,637
Operating income (loss) (1,2)	(30,523)	67,226	36,703
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(39,981 )	64,158	24,177
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (0.75)	\$ 1.20	\$ 0.45
(1) Acquired intangible assets amortization expense		22,768	
Non-cash stock-based compensation expense		2,581	
Impairment charges of other intangible assets		646	
Reorganization and other related costs		337	
Merger and acquisition related expense		528	
		26,860	
(2) Acquired intangible assets amortization expense		10,319	
Non-cash stock-based compensation expense		15,141	
Impairment charges of intangible assets and other long-lived assets		3,742	
Change in fair value of obligations in connection with acquisitions		1,378	
Reorganization and other related costs		5,803	
Merger and acquisition related expense		3,983	
		40,366	
		67,226	
(3) Corresponding tax effect		(3,866 )	
Amortization expense of associated company		798	
		\$ 64,158	
(4) Weighted average number of ordinary shares outstanding- Diluted	52,959		53,536

**Table of Contents**

	<b>Year ended December 31,</b>		
	<b>2016</b>	<b>Non-GAAP</b>	<b>2016</b>
	<b>GAAP</b>	<b>Adjustments</b>	<b>Non-GAAP</b>
	<b>(U.S. dollars and shares in thousands,</b>		
	<b>except per share amounts)</b>		
Gross profit (1)	\$ 317,306	\$ 50,334	\$ 367,640
Operating income (loss) (1,2)	(86,713 )	115,729	29,016
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(77,219 )	91,989	14,770
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (1.48 )	\$ 1.76	\$ 0.28
(1) Acquired intangible assets amortization expense		41,712	
Non-cash stock-based compensation expense		2,780	
Impairment charges of other intangible assets		1,779	
Reorganization and other related costs		3,846	
Merger and acquisition related expense		217	
		50,334	
(2) Acquired intangible assets amortization expense		14,901	
Non-cash stock-based compensation expense		17,993	
Impairment charges of intangible assets and other long-lived assets		21,774	
Change in fair value of obligations in connection with acquisitions		(872 )	
Reorganization and other related costs		3,671	
Merger and acquisition related expense		7,928	
		65,395	
		115,729	
(3) Corresponding tax effect		(24,233 )	
Intangible assets amortization expense of associated company		493	
		\$ 91,989	
(4) Weighted average number of ordinary shares outstanding- Diluted	52,582		53,201

## **Table of Contents**

### ***Forward-looking Statements and Factors That May Affect Future Results of Operation***

See *Cautionary Note Regarding Forward-Looking Statements* at the beginning of this annual report (following the table of contents).

### **Variability of Operating Results**

Our revenues and profitability may vary in any given year, and from quarter to quarter, depending on the timing, number and mix of products sold and the average selling price of the products, and are also affected by the seasonality of our business. In addition, due to competition, uncertain market acceptance and other factors, we may be required to reduce prices for our products in the future.

Our future results will be affected by a number of factors, including our ability to: increase the number of units sold; develop, introduce and deliver new products on a timely basis; accurately anticipate customer demand patterns; and manage future inventory levels in line with anticipated demand. Our results may also be affected by competitive factors, the extent to which our cost controls plans succeeds, the availability of working capital, results of litigation, the enforcement of intellectual property rights, currency exchange rate fluctuations, commodity prices and economic conditions in the geographic areas in which we operate. Macro factors, such as the extent of growth of the 3D printing market generally, may also impact our operating results. There can be no assurance that our historical performance in revenues, gross profit and net income (loss) will improve, or that revenues, gross profit and net income (loss) in any particular quarter will improve over those of preceding quarters, including comparable quarters of previous years. See Item 3.D - *Risk Factors* above.

### **Effective Corporate Tax Rate**

See *Israeli Tax Considerations and Government Programs - General Corporate Tax Structure in Israel* in Item 4.B above for a discussion of the general tax structure in Israel and applicable corporate tax rates.

In 2018, we derived a significant portion of our income from facilities granted Approved or Beneficiary Enterprise status, offset by losses of our U.S. subsidiaries with no tax benefit being recorded for those losses, as the near-term realization of these assets is uncertain. See *Israeli Tax Considerations and Government Programs - The Law for the Encouragement of Capital Investments* in Item 4.B above.

In the event we have taxable income in Israel, derived from sources other than Approved or Beneficiary Enterprises, such income would be taxable at the regular Israeli corporate tax rates.

As part of the process of preparing our consolidated financial statements, we must estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. Actual income taxes could vary from these estimates due to future changes in income tax laws or the results of final tax examinations and reviews.

### **Effects of Government Regulations and Location on our Business**

For a discussion of the effects of Israeli governmental regulation and our location in Israel on our business, see *Israeli Tax Considerations and Government Programs* in Item 4.B above and the *Risks* related to operations in Israel in Item 3.D above.

### **Inflation**

We believe that inflation has not had a material effect on our operations or on our financial condition during the three most recent fiscal years.

### **Foreign Currency Transactions**

See *Foreign Currency Exchange Risk* in Item 11 below for a discussion of foreign currency transactions.

**Table of Contents****B. Liquidity and Capital Resources**

A summary of our consolidated statement of cash flows for the last three years is as follows:

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. \$ in thousands</b>		
Net loss	\$ (11,225 )	\$ (40,459 )	\$ (77,621 )
Long-lived assets impairment charges	7,260	6,759	24,924
Depreciation and amortization	61,250	66,635	92,877
Deferred income taxes	(3,956)	(2,549)	(10,378)
Stock-based compensation	15,686	17,722	20,773
Foreign currency transactions loss (gain)	5,140	(10,429)	2,147
Other non-cash items	(9,050 )	4,898	349
Change in working capital and related items	(1,393)	19,142	8,843
Net cash provided by operating activities	63,712	61,719	61,914
Net cash provided by (used in) investing activities	7,144	(27,777)	(70,077)
Net cash provided by (used in) financing activities	(2,951 )	10,698	25,799
Effect of exchange rate changes on cash and cash equivalents	(3,530)	4,096	(1,053)
Net change in cash, cash equivalents and restricted cash	64,375	48,736	16,583
Cash, cash equivalents and restricted cash, beginning of year	329,359	280,623	264,040
Cash, cash equivalents and restricted cash, end of year	\$ 393,734	\$ 329,359	\$ 280,623

Our cash, cash equivalents and restricted cash balances increased to \$393.7 million as of December 31, 2018 compared to \$329.4 million as of December 31, 2017. The increase in cash, cash equivalents and restricted cash in 2018 was due to cash flows provided by operating activities and investing activities of \$63.7 million and \$7.1 million, respectively, partially offset by cash flows used in financing activities in an amount of \$3.0 million.

Our cash and cash equivalents balance increased to \$329.4 million as of December 31, 2017 compared to \$280.6 million as of December 31, 2016.

***Cash flows from operating activities******Year ended December 31, 2018***

We generated \$63.7 million of cash from our operating activities during 2018. That cash generated from operations derives from our net loss of \$11.2 million, as adjusted primarily due to non-cash items including depreciation, amortization and impairment charges of long-lived assets in an aggregate amount of \$68.5 million, stock-based compensation of \$15.7 million and foreign currency transactions losses which were partially offset primarily by non-cash gains from divestitures and share in profits of associated companies. Changes in working capital and related items reduced our cash flow from operating activities by \$1.4 million. The main changes in our working capital and related items included an increase in our inventories levels to support our operations, which increase was aimed at reducing shipping time to end-customers and minimizing back-orders. Changes in our accounts receivable and accounts payable partially offset one another, as we closely monitor our operating working capital.

***Year ended December 31, 2017***

We generated \$61.7 million of cash from our operating activities during 2017. The net loss of \$40.5 million was adjusted primarily due to non-cash items including depreciation, amortization and impairment charges of long-lived assets in an aggregate amount of \$73.4 million and stock-based compensation of \$17.7 million, partially offset by foreign currency transactions gains. Changes in working capital and other items contributed \$14.2 million for our cash flow provided by operating activities.

***Year ended December 31, 2016***

We generated \$61.9 million of cash from our operating activities during 2016. The net loss of \$77.6 million was primarily adjusted due to non-cash items including depreciation, amortization and non-cash impairment charges of long-lived assets of \$117.8 million and stock-based compensation in the amount of \$20.8 million, partially offset by changes in the deferred income taxes of \$10.4 million. Changes in working capital and other items of \$8.9 million increased our cash flow provided by operating activities.

*Cash flows from investing activities*

*Year ended December 31, 2018*

We generated \$7.1 million of cash from our investing activities during 2018. We received net proceeds of \$41.2 million from the divestment of certain subsidiaries (primarily Solidscape) and from the divestment of our minority equity interest in LPW. We used \$23.4 million of cash primarily to purchase property and equipment. Our principal property and equipment investments were for our new building complex under construction in Rehovot, Israel. The new facility in Rehovot, Israel, which will contain two buildings, houses our Israeli headquarters, research and development facilities and certain go to market activities. We entered the first building in January 2017. Other equipment purchases were primarily for the enhancement of our manufacturing capabilities to support new solution offerings. In addition, we used \$13.0 million of cash for investments in certain unconsolidated entities.

*Year ended December 31, 2017*

We used \$27.8 million of cash in our investing activities during 2017. Cash was primarily used to purchase property and equipment in an amount of \$22.3 million, as well as for certain strategic investments in unconsolidated entities.

**Table of Contents**

*Year ended December 31, 2016*

We used \$70.1 million of cash in our investing activities during 2016. Cash was primarily used to purchase property and equipment in an amount of \$45.1 million, as well as for certain strategic investments in unconsolidated entities.

***Cash flows from financing activities***

*Year ended December 31, 2018*

We used \$3.0 million of cash for financing activities during 2018. Cash used for financing activities was mainly attributable to the quarterly repayments of our Bank Loan (as described below under *Capital resources and capital expenditures* *Long-term bank loan and credit line* ) in an amount of \$5.1 million and were partially offset by cash proceeds of \$3.7 million from the exercises of stock options.

*Year ended December 31, 2017*

Financing activities provided \$10.7 million of cash during 2017. Cash provided by financing activities was mainly attributable to \$10.0 million of proceeds received from the Bank Loan, partially offset by the quarterly principal repayments of \$3.7 million under the Bank Loan. In addition, exercises of stock options contributed \$5.9 million to the cash provided by financing activities.

*Year ended December 31, 2016*

Net cash provided by financing activities was \$25.8 million during 2016. Cash provided by financing activities was mainly attributable to the \$26.0 million of proceeds received from the Bank Loan.

***Capital resources and capital expenditures***

Our total current assets amounted to \$684.2 million as of December 31, 2018, of which \$393.2 million consisted of cash and cash equivalents. Total current liabilities amounted to \$175.8 million as of December 31, 2018.

Most of our cash and cash equivalents are held in banks in Israel, Switzerland and the U.S.

Our credit risk related to accounts receivable is limited due to the relatively large number of customers and their wide geographic distribution. In addition, we seek to reduce the credit exposures of our accounts receivable by credit limits, credit insurance for many of our customers, ongoing credit evaluation and account monitoring procedures.

We believe that we will have adequate cash and cash equivalents to fund our ongoing operations and that these sources of liquidity will be sufficient to satisfy our working capital and capital expenditures needs, as well as our debt requirements, for the next twelve months.

***Long-term bank loan and credit line***

In December 2016, our company entered into a secured loan agreement with Bank Hapoalim Ltd. in connection with our new office facility in Israel, which agreement we refer to as the Bank Loan Agreement. Pursuant to the Bank Loan Agreement, our company borrowed \$26 million initially in December 2016, which we refer to as the Bank Loan, and secured a credit line for an additional \$24 million, or the Credit Line. Any loans drawn upon the Credit Line will be under similar terms as the Bank Loan. The Bank Loan will mature in December 2023 and is payable in equal consecutive quarterly principal installments of principal and accrued interest. Any early repayment of the Bank Loan is subject to, within the initial three year term of the Bank Loan, a maximum 1% penalty of the amount prepaid. The repayment of the Bank Loan is secured by a first-priority lien on all of our company's rights in the property of our new office facility in Israel. The Bank Loan bears interest at the rate of LIBOR plus 3.35%. The Bank Loan Agreement contains customary representations and warranties, affirmative covenants and negative covenants, which include, without limitation, restrictions on indebtedness, liens, investments, and certain dispositions with respect to the property secured by the lien. The Bank Loan Agreement also contains customary events of default that entitle the lender to cause any or all of our company's indebtedness to become immediately due and payable and to foreclose on the lien, and includes customary grace periods before certain events are deemed events of default. Borrowings under the Bank Loan Agreement are available mainly for the financing of our new facility in Israel. As of December 31, 2018, we had borrowed \$10 million under the Credit Line.

We believe that we were in compliance with all of the covenants under the Bank Loan Agreement related to the Bank Loan and Credit Line as of December 31, 2018.

*Contractual obligations*

For information concerning our material commitments as of December 31, 2018, see Item 5.F below ( Tabular Disclosure of Contractual Obligations ).

**Critical Accounting Policies and Estimates**

We have prepared our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America. This has required us to make estimates, judgments, and assumptions that affected the amounts we reported. Note 1 to our consolidated financial statements included in Item 18 of this annual report contains the significant accounting policies and methods that we used to prepare our consolidated financial statements.

**Table of Contents**

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include:

Revenue Recognition

Income Taxes

Contingencies

Inventories

Long Lived Assets

Goodwill

We base our estimates on historical experience and on various other assumptions which we believes to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results could differ materially from the estimates we use in applying these policies.

***Revenue Recognition***

On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (ASC 606) using the modified retrospective method. The adoption of this standard did not result in a significant change to our historical revenue recognition policies and there were no significant adjustments that required a cumulative adjustment to retained earnings upon transition. The core principle of ASC 606 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASC 606 provides a five-step analysis of transactions to determine the amount and timing of revenue to be recognized. Additionally, the guidance requires disaggregated disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

The Company's contracts with its customers for products sales (AM systems and consumables) are under standard contracts and ship and bill arrangements. The transaction price is agreed upon in the contract and is primarily fixed in nature with insignificant amounts recognized for rebates programs. We estimate for rebates based on each specific program and our historical experience and reduce revenue when the sales occur. Revenue from products is recognized upon satisfaction of the performance obligation which is typically at a point in time when control is transferred to the customer. Usually, control is transferred upon shipment or once delivery and risk of loss has transferred to the customer depending on the contract terms.

The Company generates revenue from various services provided to customers, mainly from service type warranty, time and material services and direct manufacturing of parts. The transaction price is agreed upon in the contract and can be based on a fixed amount or on a time and material arrangement. Revenue from service type warranty under a contract is recognized ratably on a straight-line basis over the time of the service, as control is transferred over time or as services are performed if not under contract. For direct manufacturing parts, control is transferred usually at a point in time, upon shipment of the parts.

We enter into contracts with customers that may include multiple performance obligations with various combinations of products and services which are distinct and accounted for as separate performance obligations. The transaction price is allocated to each performance obligations on a relative standalone selling price ("SSP") basis. 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 the Company would have sold the product regularly on a stand-alone basis.

We assess collectability as part of the revenue recognition process. This assessment includes a number of factors such as an evaluation of the creditworthiness of the customer, past due amounts, past payment history, and current economic conditions. If it is determined that collectability cannot be reasonably assured, we will defer recognition of revenue until collectability is assured.

Refer to Note 3 - Revenue, in the Consolidated Financial Statements as well as Note 1 - Basis of Presentation and Summary of Significant Accounting Policies - Revenue Recognition - for additional information regarding our revenue recognition policies.

***Income Taxes***



## Edgar Filing: STRATASYS LTD. - Form 20-F

Our effective tax rate is primarily impacted by the geographical mix of taxable income and loss. We record a tax provision for the anticipated tax consequences of our reported operating results. The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws and tax rates in the jurisdictions in which we operate. We are subject to income taxes in Israel, the U.S. and other foreign jurisdictions. A significant portion of our income is taxed in Israel. We have realized and expect to continue to realize significant tax savings based on the determination that some of our industrial projects that have been granted Approved Enterprise and

Beneficiary Enterprise status, which provides certain benefits, including tax exemptions for undistributed income and reduced tax rates. Income not eligible for Approved Enterprise and Beneficiary Enterprise benefits is taxed at the regular corporate rates, which were 25% in 2016, 24% in 2017 and 23% in 2018 and thereafter. We are also a Foreign Investors Company, or FIC, as defined by the Investment Law. FICs are entitled to further reductions in the tax rate normally applicable to Approved Enterprises and Beneficiary Enterprises, depending on the level of foreign ownership. In addition, we 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.

## **Table of Contents**

Our entitlement to the above benefits is subject to our fulfilling the conditions stipulated by the Investment Law and regulations. Should we fail to meet such requirements in the future, income attributable to our Approved Enterprise and Beneficiary Enterprise programs could be subject to the statutory Israeli corporate tax rate and we could be required to refund a portion of the tax benefits already received with respect to such programs, as adjusted by the Israeli consumer price index and interest, or other monetary penalty.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. In evaluating the exposure associated with our various tax filing positions, we record reserves for uncertain tax positions in accordance with US GAAP, based on the technical support for the positions and our past audit experience with similar situations. Although we believe our tax positions comply with applicable tax laws and we intend to defend our positions, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax reserves and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. 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 impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related estimated interest and penalties.

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of temporary differences between the carrying amount and tax bases of assets and liabilities under the applicable tax laws, and on effective tax rates in effect when the deferred taxes are expected to be settled or realized. Deferred taxes for each jurisdiction are presented as a net asset or liability, net of any valuation allowances. Significant judgment required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we considered all available evidence, including past operating results, the most recent projections for taxable income, and prudent and feasible tax planning strategies. We reassess our valuation allowance periodically and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

## ***Contingencies***

We are subject to various legal proceedings, lawsuits, government investigations and claims involving employment-related, patents, commercial, securities, and environmental matters that may arise from time to time in the ordinary course of business. The outcomes of the legal proceedings that are pending as of the date the financial statements are issued are subject to significant uncertainty. We record a liability when we believe that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both the probability of having incurred a liability and the estimated amount of the liability. We review these matters at least quarterly and adjust these liabilities to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events, pertaining to a particular case. As such accruals are based on management's judgment as to the probability of losses, accruals may materially differ from actual verdicts, settlements or other agreements made with regards to such contingencies.

## ***Inventories***

Our inventories are stated at the lower of cost or net realizable value. Cost is determined mainly using standard cost, which approximates actual cost, on a first-in, first-out basis. Inventory costs consist of materials, direct labor and overhead. Net realizable value is determined based on estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We assess periodically our inventories for obsolescence and excess balances, or when certain events or changes in circumstances occur that trigger such assessment. The net realizable value of our inventory is based on certain factors including, but not limited to: forecasted selling prices and future demand for our products and services, historical sales patterns, technological changes, estimated service period, product end-of-life dates, alternative uses for the inventory, new products launches and other market conditions as applicable. If required, we reduce the carrying value of our inventories by an amount equal to the difference between its cost and the net realizable value. Once such inventory is written down, a new lower cost basis for that inventory is established. Our provisions for inventory write-downs for obsolescence and excess balances requires us to utilize significant judgment. Although we make every effort to ensure the accuracy of the net realizable value of our inventories, any significant unanticipated deteriorating factor could have a material impact on the carrying value of our inventories and reported operating results.

## ***Long Lived Assets***

Our long-lived assets, other than goodwill, comprised of definite life identifiable intangible assets and property, plant and equipment. Most of our identifiable intangible assets were recognized as part business combinations we have executed in prior periods. Our identifiable intangible assets are primarily comprised of developed technology, trademarks and trade names, customer relationships and patents.

We review the carrying amounts of our long-lived assets for potential impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment indicators may include any significant changes in the manner of our use of the assets or the strategy of our overall business, certain reorganization initiatives, significant negative industry or economic trends and significant decline in our share price for a sustained period. In evaluating recoverability we compare the carrying amounts of the asset or assets groups with

## Edgar Filing: STRATASYS LTD. - Form 20-F

their respective estimated undiscounted future cash flows. If the asset or assets group are determined to be impaired, an impairment charge is recorded as the amount by which the carrying amount of the asset or assets group exceed their fair value.

During the year ended December 31, 2018, 2017 and 2016 we recorded impairment of charges of \$7.3 million, \$6.8 million and \$24.9 million, respectively, related to our long-lived assets.

**Table of Contents****Goodwill**

Goodwill reflects the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Goodwill is not amortized but rather is tested for impairment annually at the reporting unit level, or whenever events or circumstances present an indication of impairment. During 2015, we determined that certain indicators of potential impairment that required goodwill impairment analysis for all of our reporting units existed. Accordingly, we performed a quantitative two-step assessment for goodwill impairment for each of our reporting units. As a result, we recorded a non-cash impairment charge of \$942.4 million during 2015. The non-cash impairment charges were recorded in order to reduce the carrying amount of goodwill to its estimated fair value. No goodwill impairment was recorded during the years ended December 31, 2018, 2017 and 2016.

Determining the fair value of our reporting units requires significant judgment, including judgments about the appropriate discount rates, terminal growth rates, weighted average costs of capital and the amounts and timing of projected future cash flows. Projected future cash flows are based on our most recent budget, forecasts and strategic plans as well as certain growth rate assumptions. Potential changes in our costs and operating structure, the expected timing of utilization of synergies strategic opportunities, negative effect of exchange rate differences and overall weakness in the 3D printing marketplace, could negatively impact our near-term cash-flow projections and could trigger a potential impairment of our goodwill. In addition, failure to execute our strategic plans for our Stratasys-Objet reporting unit could negatively impact the fair value of our Stratasys-Objet reporting unit, and increase the risk of an additional goodwill impairment in the future. We will continue to monitor the fair value our Stratasys-Objet reporting unit to determine whether events and changes in circumstances such as further deterioration in the business climate or operating results, further significant decline in our share price, changes in management's business strategy or downward changes of our cash flows projections, warrant further interim impairment testing. Refer to Note 7 to our audited financial statements included in Item 18 of this annual report for further information.

**C. Research and Development, Patents and Licenses, Etc.**

For a discussion of our research and development policies, see "Research and Development" and "Regulation— Israeli Tax Considerations and Government Programs – Law for the Encouragement of Capital Investments" in Item 4.B above and the "Risks related to operations in Israel" in Item 3.D above.

**D. Trend Information.**

For trend information, see the Risk Factors described in Item 3.D above, the "Overview" and "Operating Results" sections of this Item 5 - "Operating and Financial Review and Prospects" and Item 4 - "Information on the Company" above.

**E. Off-Balance Sheet Arrangements.**

Except for standard operating leases, we have not engaged in any off-balance sheet arrangements, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

We do not believe that our off-balance sheet arrangements and commitments have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**F. Tabular Disclosure of Contractual Obligations.**

The following table summarizes our material known contractual obligations and commitments as of December 31, 2018 that we expect to require significant cash outlays in future periods:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	U.S. \$ in thousands				
Operating lease obligations	24,999	8,445	10,802	5,159	593
Purchase obligations	100,107	100,107	-	-	-
Long-term debt (including estimated interest)	31,788	6,692	12,440	11,172	1,484
	<b>\$ 156,894</b>	<b>\$ 115,244</b>	<b>\$ 23,242</b>	<b>\$ 16,331</b>	<b>\$ 2,077</b>

Edgar Filing: STRATASYS LTD. - Form 20-F

The total amount of unrecognized tax benefits for uncertain tax positions was \$22.0 million as of December 31, 2018. Payment of these obligations would result from settlements with taxing authorities. Due to the difficulty in determining the timing of resolution of audits, these obligations are not included in the above table.

**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.****A. Directors and Senior Management.**

The following table lists the names and ages of our current directors, as well as the names, ages and positions of the current members of our senior management, as of the filing date of this annual report:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Elchanan Jaglom	77	Chairman of the Board of Directors and interim Chief Executive Officer
S. Scott Crump	65	Chairman of the Executive Committee and Chief Innovation Officer
Victor Leventhal	74	Director
John J. McEleney	56	Director
Dov Ofer	64	Director
Ziva Patir	68	Director
David Reis	58	Vice Chairman of the Board of Directors and Executive Director
Yair Seroussi	63	Director
Adina Shorr	58	Director
Lilach Payorski	45	Chief Financial Officer

*Elchanan Jaglom* has served as Chairman of the Board of Directors since February 2015 and as interim Chief Executive Officer since June 1, 2018. From the Stratasys, Inc.- Objet Ltd. merger until February 2015, Mr. Jaglom served as the Chairman of the Executive Committee of our company. Prior to the Stratasys, Inc.- Objet Ltd. merger, he served as Chairman of Object's board of directors from 2001 until the Stratasys, Inc.- Objet Ltd. merger. Mr. Jaglom also served as the Chairman of Diamond Capital Management Ltd., the investment manager of the Diamond Group of investment funds, until January 2, 2014. In parallel to his involvement with these entities, Mr. Jaglom has been involved in investment management of funds, private equity and venture capital investment since the early 1980s, focusing primarily on early-stage technology companies. He is currently a member of the Board of Trustees of the Tel Aviv Museum of Art and the Ben Gurion University of the Negev. He holds a bachelor's degree in economics and statistics from the Hebrew University in Jerusalem and an M.B.A. from New York University.

*S. Scott Crump* has served as Chairman of the Executive Committee of the Board of Directors since February 2015 and as our Chief Innovation Officer since February 2013. Mr. Crump has also served since June 1, 2018 on the oversight committee of our board of directors to help support the management of our company during an interim period, until our permanent successor chief executive officer is appointed. Mr. Crump previously served as Chairman of the Board of Directors from the Stratasys, Inc.- Objet Ltd. merger until February 2015, as Chief Executive Officer, President, Treasurer and a director of Stratasys, Inc. from its inception in 1988 until the Stratasys, Inc.- Objet Ltd. merger, and as Chief Financial Officer of Stratasys from February 1990 to May 1997. Mr. Crump was, with Lisa H. Crump, his wife, a co-founder of Stratasys, Inc., and he is the inventor of our FDM technology. During the period from 1982 to 1988, Mr. Crump was a co-founder and Vice President of Sales of IDEA, Inc., which later changed its name to SI Technologies, Inc., a leading manufacturer of force, load and pressure transducers. Mr. Crump continued to be a director and shareholder of that company until its sale to Vishay Intertechnologies, Inc. (NYSE: VSH) in April 2005. Mr. Crump holds a B.S. in mechanical engineering from Washington State University.

*Victor Leventhal* has served as a director of our company (until May 2016, as an external director) since the closing of the Stratasys, Inc.- Objet Ltd. merger on December 1, 2012. Mr. Leventhal has served as a consultant to SolidWorks Corporation, a 3D CAD software company, since 2006. From 2001 to 2006, he was a Group Executive for Dassault Systemes S.A. (NASDAQ: DASTY), the parent company of SolidWorks, where he served on the Global Management Committee. From 1995 to 2001, Mr. Leventhal was the Chief Operating Officer of SolidWorks, where he was responsible for growing the business from its inception. From 1990 to 1995, Mr. Leventhal was the Chief Executive Officer of CAD Solutions, LLC, a leading reseller of 2D and 3D CAD products, which he helped grow from a \$5 million company to a \$32 million company. From 1985 to 1990, he held numerous executive positions, including serving as the Executive Vice President of Computerland, the largest computer retailer at the time, where he was responsible for franchise development, major account sales, marketing, training, purchasing and vendor relations. Prior to that time, he held various administrative, operations, marketing and financial positions at IBM for 18 years. He has also served on the boards of directors of Solido, a 3D printing company, Graphisoft, an architectural software company, and 3D Express, a startup company in the rapid prototyping industry. Mr. Leventhal received a B.B.A. from the University of Texas.

*John J. McEleney*, who has served as a director of our company since the Stratasys, Inc.- Objet Ltd. merger, served as a director of Stratasys, Inc. from 2007 until the Stratasys, Inc.- Objet Ltd. merger. He is the co-founder of Onshape Inc., a venture backed start-up company focused on applying modern computing to the 3D product design market. Prior to Onshape he was the Chief Executive of Cloud Switch, which was acquired by Verizon. He served as a director of SolidWorks Corporation, a wholly owned subsidiary of Dassault Systemes S.A. (NASDAQ: DASTY), from June 2000 to May 2008, and also served as its Chief Executive Officer from 2001 until June 2007. Mr. McEleney joined SolidWorks in 1996, serving in several capacities, including Chief Operating Officer and Vice President, Americas Sales. Prior to joining SolidWorks, Mr. McEleney held several key management positions at CAD software pioneer Computervision and at defense contractor

## Edgar Filing: STRATASYS LTD. - Form 20-F

Raytheon. Mr. McEleney also serves as a director of Newforma, a privately held software company. He holds a B.S. in Mechanical Engineering from the University of Rochester, an M.S. in Manufacturing Engineering from Boston University and an M.B.A. from Northeastern University.

*Dov Ofer* has served as our director since July 2017, and, since June 1, 2018, on the oversight committee of our board of directors to help support the management of our company during an interim period, until our permanent successor chief executive officer is appointed. Mr. Ofer serves as the Chief Executive Officer of Lumenis Computerized Systems Ltd. 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 Scailex 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 Hanita Coatings RCA Ltd., chairman of Plastopil Hazorea Company Ltd. (TASE: PPIL), vice chairman of Scodix Ltd. and director of Kornit Digital Ltd. and Orbix Medical Ltd. 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.

**Table of Contents**

*Ziva Patir* has served as our director since June 2013, when she was elected as an unclassified director pursuant to an amendment to our amended articles that was adopted in June 2013. Ms. Patir serves on the board of directors of Babylon, a public company active in online advertisement, venture capital investments and financial investments. She also serves on the board of directors of Netz Hotels, an investing and financing real-estate company. Until lately she served on the board of directors of ELTA Systems Ltd, an Israeli provider of defense products and services and of UTS, the Israeli AVIS car rental licensee. Since February 2014, she also serves as a member of the board of Lahav at Tel-Aviv University, the leading provider of executive education in Israel, a position that she has held since 2003. Ms. Patir served as the Vice President of Standards, Policy and Sustainability for Better Place, an infrastructure electrical vehicles company providing technology design and service for switchable battery cars, a position that she held from 2008 until May 2013. From 2008 to 2010, she served as Chair of the Board of the Road Safety Authority (RSA) in Israel. From 1996 to 2008, Ms. Patir held the position of Director General of the Standard Institution of Israel (SII). From 2004 to 2008, Ms. Patir served as Vice President of the International Organization for Standardization (ISO), as well as chair of the Technical Management Board, leading overall management of ISO technical work. ISO is the world's largest developer and publisher of international standards. From 1998 to 2000, Ms. Patir was a member of the International Electrotechnical Commission Council Board. Ms. Patir is a Certified Quality Engineer and holds a B.Sc. in Chemistry from Tel-Aviv University and a M.Sc. in Chemistry/Polymer Science from the Weizmann Institute of Science.

*David Reis* was appointed Vice Chairman of the Stratasys Board of Directors on June 6, 2017, having earlier served as Executive Director since July 2016 and director since June 2013. Mr. Reis also serves as a key member of the board of directors oversight committee as of June 1 2018 guiding the Company's Executive Management during an interim period until the Board of Directors Search Committee appoints Stratasys' next Chief Executive Officer. In addition since 2017, Reis serves as Chairman at Enercon Technologies Ltd., Tuttnauer Ltd and Highcon Ltd. He also served as a Director of Objet from 2003 until the closing of the Stratasys-Objet merger. Mr. Reis served as the Stratasys Chief Executive Officer from March 2009 until June 30, 2016 (and, prior to the Stratasys-Objet merger, as Objet's CEO). Previously, he served as Chief Executive Officer and President of NUR Macroprinters Ltd. (NURMF.PK), a wide format printer manufacturer that was acquired by HP, from February 2006 to March 2008. Prior to joining NUR, Mr. Reis served as the Chief Executive Officer and President of ImageID, an automatic identification and data capture solution provider, and of Scitex Vision (NASDAQ & TASE: SCIX), a developer and manufacturer of wide-format printers. Mr. Reis holds a B.A. in Economics and Management from the Technion-Israel Institute of Technology and an M.B.A. from the University of Denver. Reis is also a graduate of the Harvard Business School Advanced Management Program.

*Yair Seroussi* has served as our director since July 2017. Mr. Seroussi has served as an independent director at DSP Group, Inc. (NASDAQ: DSPG) since February 2002. He serves as a Member of the Advisory Team at SkyFund, a leading mid-market Israeli private equity fund. He is a member of the Board of Governors of the Hebrew University, and Chairman of the Eli Hurvitz Strategic Management Institute at the Tel Aviv University. Mr. Seroussi served as chairman of the board of Bank Hapoalim from 2009 through 2016. Mr. Seroussi also served as the president of the Israeli Bank Association for four years. He served as a board member and as chairman of the audit committee of Bank Hapoalim from 1997 through 2002. Mr. Seroussi was the founder and head of Morgan Stanley Israel for 16 years. He was the founder and chairman of the Mustang Mezzanine Fund. He served as the chairman of the Investment Committee of Mivtachim, Israel's largest pension fund, and was a member of various investments committees of private equity funds. Mr. Seroussi served as a director of Israel Corp and Frutarom Industries. Mr. Seroussi also served for over a decade in Israel's Ministry of Finance, where he held several senior positions. Between the years 1988-199, he served as Head of the Office of the Ministry of Finance in the U.S. and Head of the Commodities Division in NY. In 1991-1992, Mr. Seroussi was a member of the team that created the Yozma Program that initiated the Venture Capital industry in Israel. He holds a Bachelor's degree in Economics and Political Science from the Hebrew University.

*Adina Shorr* has served as our director since having been appointed by the Board in July 2018, and was re-elected by our shareholders at our 2018 annual general meeting of shareholders. Ms. Shorr has been the Chief Executive Officer of Scodix, a company that provides solutions to commercial printers, since September 2018. Prior to that time, she served as Chief Executive Officer and Chairman of the Board of Lucidlogix Technologies Ltd. from November 2013 to August 2018. Before that, Ms. Shorr had served as the Chief Executive Officer of CellGuide Ltd. (which was acquired by Lucidlogix) from October 2009 through October 2013. Ms. Shorr served as the Chief Executive Officer and President of Objet Ltd. (formerly known as Objet Geometries, Ltd.), one of the two predecessor companies to Stratasys Ltd., for a six-year period ending in March 2009, and also served as its President. She has extensive experience in leadership and management of technology, systems and solutions stemming from her over twenty-year career in the high-tech sector, both in the United States and Israel. She served as Corporate Vice President of Leaf Products at Creo Inc. from March 2000 to March 2003, where she initiated and led in 2000 the establishment of Leaf Products, a start-up for professional digital photography within Creo. Prior to that time, Ms. Shorr served for nine years at Scitex, four years of which she served as the President of the Scitex Input Division. Beginning in 1991, she worked in the United States for IBM in a sales support capacity and for Unisys in Program Management and was responsible for the management of the business facets of the Unisys Network Computing Division. Ms. Shorr has served as a director of Advanced Vision Technology Ltd. since June 2014 and was a director of Objet Geometries Ltd. and then Stratasys Ltd. from May 2012 to June 2013. Ms. Shorr holds an MBA and a BA, both with honors, from Michigan State University in East Lansing, Michigan.



**Table of Contents**

*Lilach Payorski* has served as our Chief Financial Officer since January 1, 2017. She joined Stratasys Ltd. in January 2013 and thereafter served as our Vice President, Corporate Finance, until August 2015, and as our Senior Vice President, Corporate Finance, from August 2015 through December 31, 2016. Prior to joining our company, from December 2009 to December 2012, Ms. Payorski served as Head of Finance at PMC-Sierra, a company operating in the Semiconductors industry, which was subsequently acquired by Microsemi Corporation. Prior to that time, she served as Compliance Controller at Check Point Software Technologies Ltd. (NASDAQ: CHKP), an IT security company, from 2005 to 2009, and in a finance leadership role at Wind River Systems (NASDAQ: WIND), a software company, which was subsequently acquired by Intel Corporation, from 2003 to 2005. Earlier in her career, she served as a CPA with Ernst & Young LLP both in Israel and later in Palo Alto, CA. Ms. Payorski earned a Bachelor of Arts in Accounting and Economics from the Tel Aviv University.

**Arrangements for Election of Directors and Members of Management; Family Relationships**

There are no arrangements or understandings pursuant to which any of our directors or members of senior management were selected for their roles. There are also no family relationships among any directors or members of our senior management.

**B. Compensation.**

The following table presents all compensation that we paid, or accrued, during the year ended December 31, 2018 to all persons who served as a director or as a member of senior management of our company at any time during the year. The table includes amounts that we paid to reimburse any of these persons for costs incurred in providing us with services during that period.

	<b>Salaries, Fees, Bonuses Commissions, and Related Benefits Paid or Accrued<sup>(1)</sup></b>	<b>Pension, Retirement and Other Similar Benefits Accrued</b>
All directors and members of senior management as a group, <sup>(2)</sup>	\$ 2,013,125 <sup>(3)</sup>	\$ 177,553

Does not include the value attributable to stock option or restricted stock unit (RSU) grants. For a discussion of stock option and RSU grants to our directors and members of senior management, see below.

(1) Comprised of the current directors and senior management members listed in the table under “Directors and Senior Management” in Item 6.A above, except that the total amount of compensation reflected in this table for the year ended December 31, 2018: (i) only includes compensation paid to Ms. Shorr beginning in July 2018, when she was first appointed to the board; and (ii) also includes compensation paid to Mr. Ilan Levin, who served as our Chief Executive Officer through May 2018. Because Mr. Levin did not receive a previously accrued bonus (in respect of 2017) during 2018, that accrued bonus was reversed during 2018, thereby yielding a negative amount of compensation for Mr. Levin in respect of 2018. That negative amount is included in the total director/management compensation amount for 2018 in the above table; and (ii) also includes compensation paid to Mr. Edward Fierko, who served as our director until our annual general meeting of shareholders in September 2018 and was not nominated for re-election.

(2) This compensation amount for the year ended December 31, 2018 excludes an aggregate of \$0.3 million of bonuses that were paid in 2018 in respect of services that had been performed during the previous year. Includes a bonus in an amount of up to \$151,930 that may be paid to (3) Mr. Crump during 2019 in respect of services performed in 2018, which bonus requires the approval of our shareholders in order to be paid. Pursuant to the Companies Law, the fees payable to our directors and our chief executive officer require approval by (i) the compensation committee of our board, (ii) the board of directors and (iii) our shareholders (in that order). Please see “Compensation Policy and Committee” in Item 6.C (“Board Practices”) below for further information regarding the requirements under the Companies Law in connection with the compensation of directors.

**Director Compensation**

The following table sets forth the directors’ fees, salary or other compensation (excluding value attributable to RSU grants and stock option grants, and excluding reimbursement for reasonable expenses incurred in connection with services) that are payable to each of our current directors:

<b>Name of Director</b>	<b>Annual Fee/Salary<sup>(1)</sup></b>	<b>Per Meeting Fee (In Person/ Telephonic/ Written Consent)</b>
Elchanan Jaglom	\$ 420,000 <sup>(2)</sup>	-

Edgar Filing: STRATASYS LTD. - Form 20-F

S. Scott Crump	\$ 262,854 <sup>(3)</sup>	-
Victor Leventhal	\$ 50,000	\$1,500/ \$375/\$325
John J. McEleney	\$ 50,000	\$1,500/ \$375/\$325
Ziva Patir	\$ 50,000 <sup>(4)</sup>	\$1,500/ \$375/\$325
David Reis	\$ 232,800 <sup>(5)</sup>	-
Dov Ofer	\$ 50,000 <sup>(6)</sup>	\$1,500/ \$375/\$325
Yair Seroussi	\$ 50,000	\$1,500/ \$375/\$325
Adina Shorr	\$ 50,000	\$1,500/ \$375/\$325

**Table of Contents**

The amounts reflected in the “Annual Fee/Salary” column do not include per-meeting fees payable to those directors for whom the above table lists per meeting fees in the right-hand column of the table. The above table does not include an annual fee of US\$2,500 for service on each committee of our board of directors on which any of the above directors serves (as described under Item 6.C below).

- (1) Constitutes salary payable in respect of the consulting and director services provided by an entity affiliated with Mr. Jaglom. Does not include Israeli value added tax, or VAT, that is due on the salary payable to Mr. Jaglom.
- (2) Constitutes the aggregate annual base salary payable to Mr. Crump for all of the services that he provides to our company, including in respect of his roles as Chairman of the Executive Committee and Chief Innovation Officer of our company. At our 2018 annual general meeting of shareholders, our shareholders furthermore approved a cash bonus of \$150,000 for Mr. Crump in respect of his achievement of certain of his goals for the 2017 year and in light of his other significant contributions to our company as our Chief Innovation Officer, including in his active role on the oversight committee of the board, which assists our interim Chief Executive Officer (as described below).
- (3) Does not include VAT that is due on the fees payable to Ms. Patir.
- (4) This constitutes the amount (not including VAT, which is due on fees payable to Mr. Reis) for Mr. Reis’ services as a board member, including in his role as Vice Chairman of the Board. In addition to this amount (which was approved by our shareholders), our shareholders also approved annual cash compensation for Mr. Reis of NIS 324,000 (approximately \$91,368) for his services as our Executive Director, plus other benefits that are provided for by Israeli law or that are customary for senior executives in Israel, including the right to use (and all related fixed and variable costs in respect of) a leased car.
- (5) Effective as of June 1, 2018, Mr. Ofer has been entitled to an additional \$15,000 per month in respect of the additional services that he
- (6) provides on the oversight committee of the board, which assists Mr. Jaglom, who serves as our interim Chief Executive Officer.

***Director/Officer Equity Compensation***

*Grants to directors who also support our senior management team*

During the year ended December 31, 2018, we granted equity to each of Messrs. Reis and Ofer in respect of the additional services that they provide on the oversight committee of the board, which assists Mr. Jaglom in his role as our interim Chief Executive Officer. As approved by our shareholders at our 2018 annual general meeting of shareholders, those grants consisted of (i) options to purchase 37,500 ordinary shares, and (ii) 18,500 RSUs, each representing one ordinary share, to each such director.

Those options and RSUs are subject to the following terms:

*Time-Vesting.* Two thirds (2/3) of the options, i.e., 25,000 options, and two thirds (2/3) of the RSUs, i. e., 12,333 RSUs, shall vest each month at a rate of 1,041 options per month and 513 RSUs per month over each of the twenty-four (24) months commencing with June 1, 2018, with 1,057 options and 534 RSUs vesting in respect of the last month of the 24-month period.

*Performance-Vesting.* One third (1/3) of the options, i.e., 12,500 options, and one-third (1/3) of the RSUs, i.e., 6,167 RSUs, are subject to performance-vesting milestones as follows:

6,250 options and 3,084 RSUs will vest if our non-GAAP operating margins for the full year of 2018 are at least four and one-half percent (4.5%); and

6,250 options and 3,083 RSUs will vest if our revenues for the first half of 2019 are at least 100% of our revenues for the first half of 2018, as reflected in our reviewed financial statements, and net of any and all acquisitions or divestments.

In addition, the options and RSUs are subject to the terms of our 2012 Omnibus Equity Incentive Plan with respect to a resignation by the director/grantee from the board, provided, that the vesting of the options and RSUs will accelerate in full if the term of office of the director/grantee is not extended by the board or by any general meetings of our shareholders for additional terms through the end of the 24-month vesting period.

*Grants to independent/non-employee directors*

At our 2016 annual general meeting of shareholders, our shareholders approved the following equity package for each of our independent and non-executive directors, which package is also granted to (i) Messrs. Ofer and Seroussi, who were initially elected as directors at our 2017 annual general meeting of shareholders, and (ii) Ms. Shorr, who was initially elected as a director by our shareholders at our 2018 annual general

meeting of shareholders:

**Initial grant:** Initial grant of options to purchase 10,000 ordinary shares of our company.

**Table of Contents**

**Exercise Price:** Equal to the fair market value of the average of the closing prices of an ordinary share of our company on the trading days during the 30-day period following the date of the approval of a grant by our shareholders.

**Vesting Schedule:** The options vest equally on a monthly basis until the earlier of (i) the first anniversary of the grant date and subject to continuous service of the applicable independent director, or (ii) at the end of the term of the applicable independent director at the next annual general meeting of the shareholders of our company after the grant at which such director's directorship may be extended or terminated (which we refer to as the Full Vesting Date), provided that all such options shall be fully vested at the Full Vesting Date.

**Automatic Additional Grants:** Automatic additional grants, consisting of an additional 10,000 options, are granted to each such continuing director on the first and second anniversaries of the commencement of such director's term (or, in the case of independent/non-employee directors serving already prior to our 2016 annual general meeting of shareholders, on the first and second anniversaries of that 2016 annual shareholder meeting), contingent on the continued service of such director. Such additional grants have an exercise price equal to the fair market value of the average of the closing prices of an ordinary share of our company on the trading days during the 30-day period following the first and second anniversaries, respectively, of the commencement of such director's term, and vest in the same manner as specified under "Vesting Schedule" above.

For a description of the terms of our stock option and share incentive plans, see "Share Ownership - Stock Option and Share Incentive Plans" in Item 6.E below.

**Office Holder Compensation**

The table below outlines the compensation granted to our five most highly compensated senior office holders during or with respect to the year ended December 31, 2018, 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, bonuses, 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	Variable Compensation <sup>(3)</sup>	Benefit and Perquisites <sup>(4)</sup>	Total Compensation, Excluding		Total
				Equity-Based Compensation	Equity-Based	
Nadav Goshen, CEO of MakerBot	\$ 522,848	\$ 175,998 <sup>(6)</sup>	\$ 72,905	\$ 771,751	\$ 674,063	\$ 1,445,814
Richard Garrity, Americas President	\$ 300,000	\$ 152,500	\$ 42,911	\$ 495,411	\$ 541,555	\$ 1,036,966
Lilach Payorski, Chief Financial Officer	\$ 309,267	\$ 107,753	\$ 65,981	\$ 483,001	\$ 456,678	\$ 939,679
Shuli Shaharabni Ishai, EVP, Global Human Resources	\$ 329,663	\$ 124,753	\$ 81,153	\$ 535,568	\$ 366,059	\$ 901,627
Andy Midelton, EVP Corporate and Business Development	\$ 374,172	\$ 156,456	\$ 14,756	\$ 545,384	\$ 341,592	\$ 886,975

(1)

## Edgar Filing: STRATASYS LTD. - Form 20-F

All amounts reported in the table are in terms of cost to the Company in U.S. dollars, as recorded in our financial statements.

All current executive officers listed in the table are full-time employees or consultants of our company. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for 2018.

- (2) Amounts reported in this column refer to commission, incentive and the maximum contractual bonus payments potentially payable for 2018.
- (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 Covered 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 represent the expense recorded in our financial statements for the year ended December 31, 2018 with respect to equity-based compensation. Equity-based compensation is determined based on the awards' fair value on their grant date. Assumptions and key variables used in the calculation of such amounts are described in Note 11 to our audited consolidated financial
- (5) statements, which are included in Item 18 of this annual report.

## **Table of Contents**

Members of our senior management are eligible for bonuses each year. The bonuses are payable upon meeting objectives and targets that are set annually by our Chief Executive Officer and approved by our compensation committee and our board of directors, in that order. These same corporate bodies also set the bonus targets for our Chief Executive Officer. In accordance with a December 2012 amendment to the Companies Law, we have adopted a compensation policy that governs the compensation of our directors and senior management and which has been approved (both initially, and then in updated form) by (i) the compensation committee of our board, (ii) the board of directors and (iii) our shareholders (most recently, at our September 2018 annual general meeting of shareholders) (in that order). Please see “Compensation Policy and Committee” in Item 6.C (“Board Practices”) below for further information.

### **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 board of directors serves as the primary corporate body responsible for risk management for our company, including cybersecurity risks, and periodically consults with the management of our company to obtain updates concerning, and internally discusses, the most material risks currently facing our company, and how those risks are being mitigated. 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 any employment agreement that we may enter into with him (Mr. Jaglom, our interim Chief Executive Officer, is not party to an employment agreement with us). All other executive officers are also appointed by our board of directors, subject to the terms of any applicable employment agreements that we may enter into with them.

Under our amended articles, our board of directors must consist of at least seven and not more than 11 directors, including, to the extent applicable, at least two external directors required to be elected under the Companies Law.

In May 2016, we elected to be governed by a newly-adopted 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 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 is elected annually, at our annual general meeting of shareholders. The vote required for the election of each director is a majority of the voting power represented at the meeting and voting on the election proposal. Following certain changes to our board of directors based on the election at our 2018 annual general meeting of shareholders that took place in September 2018, the current members of our board consist of the Chairman (who also serves as our interim Chief Executive Officer)—Elchanan Jaglom, the Chairman of the Executive Committee—S. Scott Crump, Victor Leventhal, John J. McEleney, Dov Ofer, Ziva Patir, David Reis (an Executive Director and Vice Chairman of the Board), Yair Seroussi and Adina Shorr. For more information, please see “Election of Directors” in Item 10.B (“Memorandum and Articles of Association”) below.

Our board of directors may appoint directors to fill vacancies on the board, 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.

In accordance with the exemption available to foreign private issuers under the NASDAQ Listing Rules, we do not follow the requirements of the NASDAQ rules with regard to the process of nominating directors. Instead, we follow Israeli law and practice, in accordance with which our board of directors (based on the recommendation of the executive committee thereof) is authorized to recommend to our shareholders director nominees for election. Under the Companies Law and our amended articles, nominations for directors may also be made by any shareholder holding at least one percent (1%) of our outstanding voting power. However, any such shareholder may make such a nomination only if a written notice of such shareholder’s intent to make such nomination (together with certain documentation required under the Companies Law) has been delivered to our registered Israeli office within seven days after we publish notice of our upcoming annual general meeting (or within 14 days after we publish a preliminary notification of an upcoming annual general meeting).

## Edgar Filing: STRATASYS LTD. - Form 20-F

In addition to its role in making director nominations, under the Companies Law, our board of directors must determine the minimum number of directors who are required to have accounting and financial expertise. Under applicable regulations, a director with accounting and financial expertise is a director who, by reason of his or her education, professional experience and skill, has a high level of proficiency in and understanding of business accounting matters and financial statements. See “—External Directors” in this Item 6.C below. He or she must be able to thoroughly comprehend the financial statements of the company and initiate debate regarding the manner in which financial information is presented. 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 our company and the scope and complexity of its operations. Our board of directors has determined that our company requires one director with such expertise.



## **Table of Contents**

### ***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.

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 a majority vote of the shares present and voting at a shareholders meeting, provided that either:

the majority voted in favor of election includes a majority of the shares held by non-controlling shareholders who do not have 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, which we refer to as a disinterested majority; or

the total number of shares held by non-controlling, disinterested shareholders (as described in the previous bullet-point) voted against the election of the director does not exceed two percent (2%) of the aggregate voting rights in the company.

The term “controlling shareholder” is defined in the Companies Law as 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.

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, 2015, which we filed with the SEC on March 21, 2016.

### ***Board Committees***

#### ***Audit Committee***

Under the Companies Law, the board of directors of a public company must appoint an audit committee. The audit committee must consist 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).

The members of our audit committee consist of Victor Leventhal, Yair Seroussi and Adina Shorr. Mr. Seroussi serves as chairman of the committee. Our board of directors has determined that each of Messrs. Leventhal and Seroussi, and Ms. Shorr, meets the independence requirements set forth in the Listing Rules of the NASDAQ Stock Market and in Rule 10A-3 under the Exchange Act.

Our board of directors has determined that Mr. Seroussi qualifies as an audit committee financial expert, as defined under Item 16A of the SEC’s Form 20-F, and has the requisite financial sophistication set forth in the NASDAQ rules and regulations.

Our board of directors has adopted an audit committee charter that sets forth the responsibilities of the audit committee consistent with the rules of the SEC and the Listing Rules 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 (i) 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, (ii) determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest and whether such transaction is extraordinary) (see “—Approval of related party transactions under Israeli Law” below in this Item 6.C), (iii) determining standards and policies for determining whether a transaction with a controlling shareholder or a transaction in which a controlling shareholder has a personal interest is deemed insignificant or not and the approval requirements (including, potentially, the approval of the audit committee) for transactions that are not insignificant including the types of transactions that are not insignificant, (iv) where the board of directors approves the working plan of the internal auditor, to examine such working plan before its submission to the board and propose amendments thereto, (v) examining our internal controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities, (vi) 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 (vii) establishing procedures for the handling of employees’ complaints as to the management of our business and the protection to be provided to such employees. Our audit committee may not approve an action or a related party transaction, or take any other action required under the Companies Law, unless at the time of approval a majority of the committee’s members are present, which majority consists of unaffiliated directors including at least one external director.

## **Table of Contents**

### *Executive Committee*

Upon the closing of the Stratasys, Inc.- Objet Ltd. merger, our board of directors appointed an executive committee. The roles of this committee are (i) to oversee the implementation of the business strategy of our company, subject to board approval for matters outside of the ordinary course of business (as is required under the Companies Law), and (ii) to exercise such other duties as the board may resolve from time to time. The members of the executive committee consist of Messrs. S. Scott Crump, who serves as chairman of the executive committee, Elchanan Jaglom and John McEleney.

### *Compensation Committee and Compensation Policy*

Under a December 2012 amendment to the Companies Law, we have appointed a compensation committee and established a policy regarding the terms of engagement of office holders, or a compensation policy. Such compensation policy was set by our board, after considering the recommendations of our newly-appointed compensation committee, and was approved by our shareholders in September 2013. In February 2015 and again in September 2018, following approval by our compensation committee and board, our shareholders approved an amended and restated version of our compensation policy at an extraordinary general meeting of shareholders and at our 2018 annual general meeting of shareholders (respectively).

The compensation policy serves as the basis for decisions concerning the financial terms of employment or engagement of our office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy also relates to certain factors, including advancement of our objectives, our business and our long-term strategy, and creation of appropriate incentives for executives. It also considers, among other things, our risk management, size and the nature of our operations. The compensation policy furthermore considers the following additional factors:

the knowledge, skills, expertise and accomplishments of the relevant director or executive;

the director's or executive's roles and responsibilities and prior compensation agreements with him or her;

the relationship between the terms offered and the average compensation of the other employees of our company, including those (if any) employed through manpower companies;

the impact of disparities in salary upon work relationships in our company;

the possibility of reducing variable compensation at the discretion of the board of directors; and the possibility of setting a limit on the exercise value of non-cash variable compensation; and

as to severance compensation, the period of service of the director or executive, the terms of his or her compensation during such service period, our company's performance during that period of service, the person's contribution towards our company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving our company.

The compensation policy also includes the following principles:

the link between variable compensation and long-term performance and measurable criteria;

the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;

the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in our financial statements; and

the minimum holding or vesting period for variable, equity-based compensation.

The compensation policy must also consider appropriate incentives from a long-term perspective and maximum limits for severance compensation.

Under the December 2012 amendment to the Companies Law, our compensation committee is responsible for recommending the compensation policy to our board of directors for its approval (and subsequent approval by our shareholders) and is charged with duties related to the compensation policy and to the compensation of our office holders as well as functions related to approval of the terms of engagement of office holders, including:

recommending whether our compensation policy should continue in effect, if the then-current policy has a term of greater than three (3) years (approval of the continuation of an existing compensation policy for a company such as ours must in any case occur every three years);

recommending to our board periodic updates to the compensation policy;

assessing implementation of the compensation policy; and

determining whether the compensation terms of the chief executive officer of our company need not be brought to approval of the shareholders (under special circumstances).

## **Table of Contents**

As to the composition of the compensation committee, under the Companies Law, if a company is required to appoint external directors, the committee must consist of at least three (3) members, including 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 (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 compensation committee is subject to the same Companies Law restrictions as the audit committee as to who may not be present during committee deliberations (as described under “—Approval of Related Party Transactions Under Israeli Law—Fiduciary Duties of Directors and Executive Officers—Disclosure of Personal Interests of an Office Holder” below).

The NASDAQ Listing Rules also require that the compensation of the chief executive officer and all other executive officers of our company be determined, or be recommended to the board for determination, either by a majority of the independent directors, or by a compensation committee consisting solely of independent directors (subject to a minimum of two committee members).

We appointed our compensation committee in mid-2013. The committee currently consists of Victor Leventhal, Ziva Patir and John McEleney. Victor Leventhal serves as chairman of the committee. Our board of directors has determined that each of Messrs. Leventhal and McEleney, and Ms. Patir, meets the independence requirements set forth in the Listing Rules of the NASDAQ Stock Market and in Rule 10C-1 under the Exchange Act.

### *Nominating committee*

Our board of directors does not currently have a nominating committee, as director nominations are made in accordance with the terms of our articles, as described in “—Board of Directors” above. We rely upon the exemption available to foreign private issuers under the Listing Rules of the NASDAQ Stock Market from the NASDAQ listing requirements related to independent director oversight of nominations to our board of directors and the adoption of a formal written charter or board resolution addressing the nominations process. Also see Item 16.G “Corporate Governance” below.

### *Oversight Committee*

Upon the resignation of our then Chief Executive Officer, Mr. Ilan Levin, effective as of the start of June 2018, our board of directors established an oversight committee of the board, whose role is to provide support to our interim Chief Executive Officer in the day-to-day management of our company. The members of that committee consist of Messrs. Crump, Ofer and Reis. We expect to disband that committee upon (or soon after) our hiring a permanent replacement to serve as our Chief Executive Officer.

### *Executive Search Committee*

Upon the resignation of Mr. Levin as our Chief Executive Officer, our board also appointed an executive search committee, composed of Messrs. Jaglom and Leventhal (the latter of whom serves as the chairman of the compensation committee of the board of directors), to oversee the engagement of an international executive search firm to help identify a new chief executive officer. This committee will disband upon the hiring of a permanent replacement to serve as our Chief Executive Officer.

### *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 and nominated by the board of directors. An internal auditor may not be:

- a person (or a relative of a person) who holds more than 5% 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 accounting firm, or anyone on his or her behalf.

The role of the internal auditor is to examine, among other things, our compliance with applicable law and orderly business procedures. Moshe Cohen of Chaikin Cohen Rubin & Co. has served as our internal auditor since his appointment effective upon the Stratasys, Inc.- Objet Ltd. merger.

**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 Item 6.A “Directors and Senior Management” is an office holder 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 these actions.

**Table of Contents**

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

refrain from any conflict of interest between the performance of his or her duties to the company and his or her other duties or personal affairs;

refrain from any activity that is competitive with 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*

The Companies Law requires that an office holder promptly disclose to the board of directors any personal interest that he or she may have and all related material information known to him or her and any 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 one'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 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 interest of the office holder with respect to his or her vote on behalf of the shareholder for whom he or she holds a proxy even if such shareholder itself has no personal interest in the approval of 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, 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 duty of loyalty. However, a company may not approve a transaction or action that is adverse to the company's interest or that is not performed by the office holder in good faith. Approval first by the company's audit committee and subsequently by the board of directors is required for an extraordinary transaction with an office holder. Compensation of, or an undertaking to indemnify or insure, an office holder, requires approval by the compensation committee, the board of directors and, in certain cases (for directors, the chief executive officer, and any executive officer whose compensation terms do not conform to the then-existing compensation policy) the shareholders, in that order. Compensation of an individual office holder, including the chief executive officer (but excluding a director), that does not conform to the company's compensation policy may be adopted under special circumstances despite failure to obtain shareholder approval if, following the relevant shareholder vote, the compensation committee followed by the board once again approves the compensation, based on renewed and specific analysis of relevant factors.

Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors, the audit committee or compensation committee may not be present at such a meeting or vote on that matter unless a majority of the board, audit committee or compensation committee (as appropriate) has a personal interest in the matter, or unless the chairman of the board, audit committee or compensation committee (as appropriate) 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, audit committee or compensation committee has a personal interest in the approval of a transaction, then all directors may participate in discussions of the board of directors, audit committee or compensation committee 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*

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. In the context of a transaction involving a shareholder of the company, a controlling shareholder also includes any shareholder who holds 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be a single shareholder and may be deemed a controlling shareholder for the purpose of approving such transaction. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, or a transaction with a controlling shareholder or his or her relative, directly or indirectly, require

Edgar Filing: STRATASYS LTD. - Form 20-F

the approval of the audit committee, the board of directors and the shareholders of the company, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

a disinterested majority; or

the votes of shareholders who have no personal interest in the transaction and who are present and voting, in person, by proxy or by voting deed at the meeting, and who vote against the transaction may not represent more than two percent (2%) of the voting rights of the company.



## **Table of Contents**

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 the audit committee determines that the duration of the transaction is reasonable given the circumstances related thereto.

The engagement of a controlling shareholder as an office holder or employee requires the same approvals as are described immediately above, except that the approval of the compensation committee, rather than the audit committee, is required.

### *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 the general meeting of shareholders and at class shareholder 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 interested party transactions and acts of office holders that require shareholder approval.

In addition, 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 it has the power to determine the outcome of a shareholder vote or a shareholder class 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 this 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 inserted in its articles of association. Our amended articles include such a provision. The 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 in advance of an event or following an event, provided its articles of association include a provision authorizing such indemnification:

financial liability incurred by or 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 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

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:

## Edgar Filing: STRATASYS LTD. - Form 20-F

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 fiduciary duty, 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 prejudice the company;

**Table of Contents**

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 must be approved by our compensation committee and our board of directors and, with respect to directors or controlling shareholders, their relatives and third parties in which such controlling shareholders have a personal interest, also by the shareholders. See “—Approval of Related Party Transactions Under Israeli Law—Fiduciary Duties of Directors and Executive Officers” above in this Item 6.C.

Our amended 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 have entered into agreements with each of our office holders undertaking to indemnify them to the fullest extent permitted by Israeli law. Furthermore, until the sixth anniversary of the effective time of the Stratasys, Inc.-Objet Ltd. merger, we covered the directors and officers of Stratasys, Inc. and its subsidiaries with respect to acts or omissions occurring prior to the effective time of the merger. The limits, terms and conditions of this coverage were at least as favorable as the limits, terms and conditions in the policy that Stratasys, Inc. maintained up to the effective time of the Stratasys, Inc.-Objet Ltd. merger.

**Directors’ Service Contracts**

For a description of service contracts that we have entered into with our directors that provide for benefits upon termination of employment or other service, please see Item 7.B, “Related Party Transactions— Employment and Consulting Agreements with Directors and Executive Officers” below.

**D. Employees**

The number of our full-time equivalent employees, and the distribution of employees (i) geographically and (ii) within the divisions of our company, in each case as of December 31, 2018, 2017 and 2016 are set forth in the two tables below.

<b>Region</b>	<b>Number of full-time equivalent employees by region as of December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Americas*	1,353	1,387	1,630
Israel	523	514	473
Europe	186	200	176
Asia Pacific	170	165	190
<b>Total</b>	<b>2,232</b>	<b>2,266</b>	<b>2,469</b>

<b>Division</b>	<b>Number of full-time equivalent employees by function as of December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Operations and support	801	836	788
Research and development	390	398	551
Customer service	301	285	316
Sales and marketing	331	331	441
General and administrative	409	416	373
<b>Total</b>	<b>2,232</b>	<b>2,266</b>	<b>2,469</b>

\*Includes employees in Latin America.

During the years covered by the above tables, we did not employ a significant number of temporary employees.

The moderate decrease in the size of our workforce in each of 2018 and 2017 relative to the previous year was due to our implementation of operational efficiencies, which included elimination of excess employees in certain divisions of our company.

## Edgar Filing: STRATASYS LTD. - Form 20-F

While our Israeli employees, and the vast majority of all of our employees globally are not, party to a collective bargaining agreement, 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 Israel Ministry of Labor. These provisions primarily concern the length of the workday, minimum daily wages for professional workers, pension fund benefits for all employees, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

We have never experienced any employment-related work stoppages. We believe that our relationship with our employees is good.

The employees of our subsidiaries are subject to local labor laws and regulations that vary from country to country.

**Table of Contents****E. Share Ownership.**

The following table lists, as of February 14, 2019, the number of our ordinary shares owned, and stock options held, by each of the directors and members of our senior management who served as such during the year (including for part of the year) ended December 31, 2018:

Name	Shares of Stratasys <sup>(1)</sup> Percent of Number of outstanding shares beneficially owned <sup>(3)</sup>		Stratasys stock options and RSUs <sup>(2)</sup> Number held <sup>(4)</sup>				Expiration Date (for options)
	owned <sup>(3)</sup>	owned <sup>(3)</sup>	Already vested within 60 days	or vesting within 60 days	Not vesting	Exercise price per Share (for options)	
Elchanan Jaglom <i>Chairman of the Board and interim CEO</i>	2,402,856 <sup>(5)</sup>	4.50%		—	—		
S. Scott Crump <i>Chairman of the Executive Committee</i>	520,723 <sup>(6)</sup>	*	100,000	43,750	56,250	—\$ 82.15 \$ 19.96	June 21, 2023 April 6, 2027
Ilan Levin <i>Former Chief Executive Officer and Former Director</i> <sup>(7)</sup>	209,257	*		—	—		—
Edward J. Fierko <i>Former Director</i> <sup>(8)</sup>	182,041 <sup>(9)</sup>	*	22,000	22,000	10,000	—\$ 82.15 —\$ 103.30 —\$ 21.44 —\$ 23.41	June 21, 2023 August 8, 2020 June 4, 2026 July 18, 2027
Victor Leventhal <i>Director</i>	46,345 <sup>(10)</sup>	*	19,179	5,000	10,000	—\$ 74.95 —\$ 21.44 —\$ 23.41	December 1, 2022 June 4, 2026 July 18, 2027
John J. McEleney <i>Director</i>	67,666	*	16,500	22,000	10,000	—\$ 82.15 —\$ 103.30 —\$ 21.44 —\$ 23.41	June 21, 2023 August 8, 2020 June 4, 2026 July 18, 2027
Dov Ofer <i>Director</i>	41,539 <sup>(11)</sup>	*	10,000	6,666	10,410	—\$ 23.41 3,334 \$ 21.82 14,590 \$ 22.28	July 18, 2027 September 13, 2028 October 4, 2028
Ziva Patir <i>Director</i>	58,748	*	29,582	10,000	10,000	—\$ 23.41 —\$ 21.44 —\$ 23.41	June 21, 2023 June 4, 2026 July 18, 2027
David Reis <i>Vice Chairman of the Board and Executive Director</i>	68,557 <sup>(12)</sup>	*	10,410	6,250	5,130	834 \$ 19.59 —\$ 22.28 6,250 \$ 22.28 7,203 \$ —	September 13, 2028 October 4, 2028 October 4, 2028
Yair Seroussi <i>Director</i>	16,666	*	10,000	6,666	3,083	—\$ 23.41 3,334 \$ 21.82 —\$ —	July 18, 2027 September 13, 2028
Adina Shorr <i>Director</i>	39,303	*	5,833	4,167		\$ 22.47	October 13, 2028

Lilach Payorski  
*Chief Financial Officer*

---

\* (13) \*

\* Constitutes less than 1% of our outstanding shares.

(1) All of our shares (including shares held by directors and members of senior management) have identical voting rights.

66

---

**Table of Contents**

For a description of Stratasy's equity incentive plans, please see "Stock Option and Share Incentive Plans" in this Item below. All options and RSUs granted under such plans have been granted without payment of any cash consideration therefor by the grantees thereof.

In accordance with Rule 13d-3 under the Exchange Act, the number of shares and the percentages shown for individual directors and officers include any ordinary shares underlying stock options and RSUs held by any such person that vest within 60 days of February 14, 2019 and that are also reflected in the column titled "Stratasy's stock options and RSUs— Number held — Already vested or vesting within 60 days." Further in keeping with such Rule 13d-3, the computation of percentage ownership is based upon 53,976,424 ordinary shares outstanding at February 14, 2018, plus such number of ordinary shares as such person (but not any other person) had the right to receive upon the exercise or settlement of vested stock options or RSUs (as applicable) within 60 days thereof.

(4) Each stock option is exercisable for one ordinary share, and each RSU represents the right to receive one ordinary share.

Consists of (i) 1,984,304 ordinary shares held by Samson Capital, LLC and (ii) 418,552 ordinary shares held by HCK Holdings LLC (formerly known as Hancock LLC), with respect to which Mr. Jaglom may be deemed to possess shared voting and dispositive power. Mr. Jaglom is party to an agreement pursuant to which he has the right to independently make decisions as to voting and disposition of 613,655 of the ordinary shares held by Samson Capital, LLC, without having to consult with any other person. Mr. Jaglom disclaims beneficial ownership of all of the ordinary shares that may be deemed to be beneficially owned by him except to the extent of his pecuniary interest therein.

(5) Includes 176,294 ordinary shares owned of record by Mr. Crump's wife.

Mr. Levin served as our Chief Executive Officer and director through May 31, 2018. The beneficial ownership information being provided for him herein is provided to the best of our knowledge, without having verified such information with Mr. Levin.

Mr. Fierko served as our director until our 2018 annual general meeting of shareholders in September 2018, and elected not to be nominated for re-election at that meeting. The beneficial ownership information being provided for him herein is provided to the best of our knowledge, without having verified such information with Mr. Fierko.

(8) Includes 20,375 ordinary shares held by Mr. Fierko's wife.

(9) Beneficial ownership over these ordinary shares is shared by Mr. Leventhal with his spouse and with the trustee of a family trust.

Consists entirely of 41,539 ordinary shares issued or issuable to Mr. Ofer upon the vesting of RSUs and exercise of options granted to him, which RSUs and options have vested or will vest within 60 days of February 14, 2019. In addition to the foregoing RSUs, Mr. Ofer also holds additional RSUs which will vest upon the fulfillment of certain performance-based conditions. See "Item 6.B Compensation— Director/Officer Equity Compensation— Grants to directors who also support our senior management team" above for a description of those performance-based RSUs. In accordance with the SEC's beneficial ownership rules, those performance-based RSUs and the underlying ordinary shares are not included in Mr. Ofer's beneficial ownership in the above table since there is no assurance that the performance-based condition for vesting will be met.

Includes 24,873 ordinary shares issued or issuable to Mr. Reis upon the vesting of RSUs and exercise of options granted to him, which RSUs and options have vested or will vest within 60 days of February 14, 2019. In addition to the foregoing RSUs, Mr. Reis also holds additional RSUs which will vest upon the fulfillment of certain performance-based conditions. See "Item 6.B Compensation— Director/Officer Equity Compensation— Grants to directors who also support our senior management team" above for a description of those performance-based RSUs. In accordance with the SEC's beneficial ownership rules, those performance-based RSUs and the underlying ordinary shares are not included in Mr. Reis' beneficial ownership in the above table since there is no assurance that the performance-based condition for vesting will be met.

Because Ms. Payorski beneficially owns less than 1% of our outstanding ordinary shares and her beneficial ownership has not previously been disclosed to our shareholders or otherwise made public, it is being omitted from this annual report pursuant to an allowance provided by the SEC's Form 20-F.

**Stock Option and Share Incentive Plans**

The following sets forth certain information with respect to our current stock option and share incentive plan. The following description is only a summary of the plan and is qualified in its entirety by reference to the full text of the plan, which serves as an exhibit to this annual report.

Upon the expiration of our stock option and share incentive plan, no further grants may be made thereunder, although any existing awards will continue in full force in accordance with the terms under which they were granted.

Our 2012 Omnibus Equity Incentive Plan, which became effective at the effective time of the Stratasys, Inc.- Objet Ltd. merger, provides for the grant of options, restricted shares, restricted share units and other share-based awards to our and our subsidiaries' respective directors, employees, officers, consultants, and advisors and to any other person whose services are considered valuable to our company or any of our affiliates. Following the approval of the 2012 Plan by the Israeli tax authorities, we have only granted options or other equity incentive awards under the 2012 Plan. All previously-granted options and awards under our Amended and Restated 2004 Omnibus Stock Option and Restricted Stock Incentive Plan have expired. Under the 2012 Plan, there were 2,500,000 ordinary shares originally reserved for issuance, none of which was granted prior to the effectiveness of the Stratasys, Inc.-Objet Ltd. merger. Upon the adoption of an amendment to the 2012 Plan at our extraordinary general meeting of shareholders in February 2013, the reserved pool under the plan consisted of 4,000,000 shares, which was to be automatically increased annually on January 1 (beginning on January 1, 2014) by a number of ordinary shares equal to the lower of (i) 500,000 shares, subject to adjustment due to certain changes as provided under the 2012 Plan, and (ii) a number of shares determined by our board of directors, if so determined prior to the January 1 on which the increase will occur. Pursuant to that provision, on each of January 1, 2015, 2016, 2017 and 2018, the pool of shares under the 2012 Plan was automatically increased by 500,000 shares, to 5,000,000 shares, 5,500,000, 6,000,000 and 6,500,000 shares total, respectively, and on January 1, 2019, the pool of shares was further increased by an additional 200,000 shares, to 6,700,000.



## **Table of Contents**

The 2012 Plan is administered by our board of directors or by a committee designated by the board, 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 our company to issue awards under various tax regimes including, without limitation, pursuant to Sections 102 and 3(9) of the Tax Ordinance and Section 422 of U.S. Internal Revenue Code of 1986, to which we refer as the Code.

Section 102 of the Tax Ordinance allows employees, directors and officers who are not controlling shareholders and are considered Israeli residents to receive favorable tax treatment for compensation in the form of shares or options. Our Israeli non-employee service providers and controlling shareholders may only be granted options under Section 3(9) of the Tax Ordinance, which does not provide for similar tax benefits. Section 102 of the Tax 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 Tax Ordinance, the most favorable tax treatment for grantees, permits the issuance to a trustee under the capital gains track. However, under this track we will not be allowed to deduct an expense with respect to the issuance of the options or shares. 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. 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.

Under the 2012 Plan, we are expected to grant options to our employees, directors and officers who are not controlling shareholders and are considered Israeli residents, under the capital gains track. In order to comply with the terms of the capital gains track, all options granted under the 2012 Plan pursuant and subject to the provisions of Section 102 of the Tax Ordinance, as well as the ordinary shares to be issued upon exercise of these options and other shares received subsequently following any realization of rights with respect to such options, such as share dividends and share splits, must be granted to a trustee for the benefit of the relevant employee, director or officer and should be held by the trustee for at least two years after the date of the grant.

Awards under the 2012 Plan may be granted until September 16, 2022, ten years from the date on which the 2012 Plan was approved by our shareholders.

Options granted under the 2012 Plan generally vest over four years commencing on the date of grant such that 25% vest after one year and an additional 6.25% vest at the end of each subsequent three-month period thereafter for 36 months. Options, other than certain incentive share options, that are not exercised within ten years from the grant date expire, unless otherwise determined by the board or its designated committee, as applicable. Incentive share options granted to a person holding more than 10% of the combined company's voting power expire within five years from the date of the grant. In case of termination for reasons of death, disability, or retirement, the grantee or his legal successor may exercise options that have vested prior to termination within a period of one year from the date of disability or death, or within three months following 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 exercise his or her vested options within 90 days of the date of termination. Any expired or unvested options return to the pool 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, then without the consent of the option holder, the board 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 refuses to 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 against payment in cash in an amount determined by the board or the committee as fair in the circumstances. Notwithstanding the foregoing, the board or its designated committee may upon such event amend or terminate the terms of any award, including conferring the right to purchase any other security or asset that the board shall deem, in good faith, appropriate.

### *Expired Plans*

#### *Stratasys, Inc. Plans*

Pursuant to the Stratasys, Inc.-Objet Ltd. merger agreement whereby our consolidated group of companies was originally formed in December 2012, upon the consummation of the Stratasys, Inc.-Objet Ltd. merger, each option exercisable for one share of Stratasys, Inc. common stock converted into an option to purchase one ordinary share of Stratasys Ltd. Furthermore, we assumed the obligations of Stratasys, Inc. related to the issuance of shares underlying those options under its then-existing option plans. As of December 31, 2018, none of our ordinary shares that were issuable upon exercise of those options that were vested and exercisable under the Stratasys, Inc. plans remains outstanding.

**Table of Contents**

The following table presents certain option data information for the above-described stock option and share incentive plans as at February 14, 2019:

<b>Plan</b>	<b>Total Ordinary Shares Reserved for Grants</b>	<b>Aggregate Number of Awards Granted out of Reserve, Net of Cancellations</b>	<b>Shares Available for Future Grants</b>	<b>Aggregate Number of Awards Outstanding</b>	<b>Weighted Average Exercise Price of Outstanding Options</b>
<b>2012 Plan</b>	<b>6,700,000</b>	4,714,968	1,985,032	3,778,455	\$ 31.31

On December 3, 2012, we filed a registration statement on Form S-8 to register the issuance of ordinary shares in respect of then-outstanding options to directors, officers, employees and eligible consultants under the 2004 Plan and the Stratasys, Inc. plans. On September 3, 2013, we filed a registration statement on Form S-8 to register the issuance of ordinary shares underlying options granted or to be granted under the 2012 Plan.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.****A. Major Shareholders***Ownership by Major Shareholders*

The following table presents the beneficial ownership of our ordinary shares by each person who is known by us to be the beneficial owner of 5% or more of our outstanding ordinary shares (to whom we refer as our major shareholders), based on the most recent beneficial ownership reports filed with the SEC by such persons on or before February 14, 2019. The data presented is based on information provided to us, or disclosed in public filings with the SEC, by the major shareholders.

Beneficial ownership of shares is determined under rules of the SEC and generally includes any shares for which a person exercises sole or shared voting or investment power, or for which a person has or shares the right to receive the economic benefit of ownership of the shares. The table below includes the number of shares underlying options that are exercisable within 60 days after February 14, 2019. Shares issuable upon the exercise of such options are deemed to be outstanding for the purpose of computing the ownership percentage of the person, entity or group holding such options, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person, entity or group. The ownership percentages reflected below are based on 53,976,424 ordinary shares outstanding as of February 14, 2019.

Except where otherwise indicated, and except pursuant to community property laws, we believe, based on information furnished by such owners, that the beneficial owners of the shares listed below have sole investment and voting power with respect to, and the sole right to receive the economic benefit of ownership of, such shares. The shareholders listed below do not have any different voting rights from any of our other shareholders. We know of no arrangements that would, at a subsequent date, result in a change of control of our company.

<b>Beneficial Owner</b>	<b>Ordinary Shares</b>	<b>Options Exercisable within 60 Days</b>	<b>Total Beneficial Ownership</b>	<b>Percentage Ownership</b>
ARK Investment Management LLC	6,774,158 (1)	—	6,774,158	12.6%
ArrowMark Colorado Holdings LLC	4,285,964 (2)	—	4,285,964	7.9%
PRIMECAP Management Company	7,646,489 (3)	—	7,646,489	14.2%
Fisher Investments	2,813,874 (4)	—	2,813,874	5.2%

Represents shares beneficially owned as of December 31, 2018, as indicated in the statement of beneficial ownership on Schedule 13G filed by ARK Investment Management LLC on February 14, 2019. As indicated in that statement, ARK Investment Management LLC possesses sole voting and dispositive power with respect to 4,948,735 of such ordinary shares, shared dispositive power with respect to the remaining (1) 1,825,423 ordinary shares beneficially owned by it, and shared voting power with respect to only 337,178 of such ordinary shares.

Represents shares beneficially owned as of December 31, 2017, as indicated in a statement of beneficial ownership on Schedule 13G filed by (2) this shareholder on February 9, 2018.

(3) Represents shares beneficially owned as of December 31, 2018, as indicated in the amended statement of beneficial ownership on Schedule 13G/A filed by PRIMECAP Management Company on February 8, 2019. As indicated in that amended statement, PRIMECAP Management

## Edgar Filing: STRATASYS LTD. - Form 20-F

Company possesses sole dispositive power with respect to all such 7,646,489 ordinary shares, but sole voting power with respect to only 7,298,189 of such ordinary shares.

Represents shares beneficially owned as of December 31, 2018, as indicated in the amended statement of beneficial ownership on Schedule 13G filed by Fisher Investments on February 1, 2019. As indicated in that amended statement, Fisher Investments possesses sole dispositive (4) power with respect to all such 2,813,874 ordinary shares, but sole voting power with respect to only 1,368,156 of such ordinary shares.

69

---

## **Table of Contents**

### ***Changes in Percentage Ownership by Major Shareholders***

In 2016, the percentage ownership of our former major shareholders Samson Capital, LLC, Roy J. Zuckerberg and Elchanan Jaglom declined, due to sales by Samson Capital, LLC and Hancock LLC (and Samson Capital LLC ceased to be a 5% or greater shareholder as a result). In 2017, Roy J. Zuckerberg ceased to be a 5% or greater shareholder (due to sales of ordinary shares by Samson Capital LLC and a reduction in Mr. Zuckerberg's ownership interest in Hancock LLC to 0.01% such that ordinary shares held by Hancock LLC are no longer deemed beneficially owned by Mr. Zuckerberg). At the same time, in 2017, the number of ordinary shares held by Elchanan Jaglom decreased as well, due to decreases in the number of ordinary shares held by each of Samson Capital LLC and Hancock LLC. In 2018, a further reduction in the number of shares held by Samson Capital LLC resulted in Mr. Jaglom ceasing to be a 5% or greater shareholder.

The percentage ownership of those shareholders (while they were 5% or greater shareholders) changed during the years 2016, 2017 and 2018 as follows: (i) Samson Capital, LLC from 5.2% down to 4.8% in 2016 (at which point it ceased to be a 5% shareholder); (ii) Roy J. Zuckerberg from 6.2% down to 5.5% in 2016, and further down to 4.5% in 2017 (at which point he ceased to be a 5% shareholder); and (iii) Elchanan Jaglom from 6.2% down to 5.5% in 2016, further down to 5.1% in 2017, and then further reduced to 4.5% in 2018, at which point he ceased to be a 5% shareholder.

During 2016, PRIMECAP Management Company, one of our major shareholders, increased its percentage ownership of our ordinary shares to 9.5%. During 2017 and 2018, its percentage ownership further rose, to 11.7% and 14.2%, respectively.

T. Row Price Associates, Inc. acquired over 5% of our outstanding ordinary shares in 2015 (5.3%), but then ceased to be a major shareholder during 2016, dropping to 1.6% as of the end of 2016. Fisher Investments became a 5% or greater shareholder for the first time as of the end of 2016, having acquired 5.9%, then decreased to 5.7% in 2017, and then further decreased to 5.2% in 2018. ArrowMark Colorado Holdings LLC became a 5% or greater shareholder of ours for the first time as of the end of 2017, having acquired 8.0%. It did not acquire or dispose of any ordinary shares in 2018.

### ***Record Holders***

Based upon a review of the information provided to us by our transfer agent, as of February 14, 2019, there were 73 holders of record of our shares, of which 47 record holders holding approximately 99.99% of our outstanding ordinary shares, had registered addresses 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 many of these shares were held of record by brokers or other nominees. As of the said date, CEDE & Co, the nominee company of the Depository Trust Company (with a registered address in the United States), held of record approximately 92.4% of our outstanding ordinary shares 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.**

Except as described below or elsewhere in this annual report, since January 1, 2018, we have had no transaction or loan, nor do we have any presently proposed transaction or loan, involving any related party described in Item 7.B of Form 20-F promulgated by the SEC.

### ***Indemnification Agreements***

Our amended articles permit us to exculpate, indemnify and insure each of our directors and office holders to the fullest extent permitted by the Companies Law. Effective upon the effective time of the Stratasys, Inc.- Objet Ltd. merger, we entered into indemnification agreements with each of our then-current directors and other office holders, under which we undertook to indemnify them to the fullest extent permitted by Israeli law, including with respect to liabilities resulting from the merger to the extent that these liabilities are not covered by insurance. We have entered into similar indemnification agreements with all directors and other office holders who have served as such since the Stratasys, Inc.-Objet Ltd. merger. We also put into place Directors and Officers liability insurance for each of our directors and other office holders upon the effectiveness of the Stratasys, Inc.-Objet Ltd. merger, and have renewed that policy as necessary to maintain continuous coverage since the merger.

### ***Employment and Consulting Agreements with Directors and Executive Officers***

#### ***Consulting arrangement with an entity affiliated with Elchanan Jaglom***

An entity affiliated with Elchanan Jaglom, the Chairman of the board of directors and our interim Chief Executive Officer, has provided consulting and director services to us pursuant to an oral arrangement that was approved by our board of directors and shareholders. The

monthly amount payable to that entity under this arrangement is \$35,000, plus VAT, currently. The consulting arrangement, which is not recorded in a written agreement, has no set term and may be terminated by either party at will upon written notice.

**C. Interests of Experts and Counsel.**

Not required.

**ITEM 8. FINANCIAL INFORMATION.**

**A. Consolidated Statements and Other Financial Information.**

The consolidated financial statements and other financial information for our company required by SEC are included in this annual report beginning on page F-1.

**Table of Contents****Export Sales**

The following table presents total export sales by Stratasys, Ltd for each of the fiscal years indicated (in thousands):

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Total Export Sales*	\$ 251,099	\$ 260,645	\$ 269,449
<i>as a percentage of Total Sales</i>	37.9%	39.0%	40.1%

Export sales, as presented, are defined as sales to customers located outside of North America and Israel (where our dual headquarters are \*located).

**Legal Proceedings**

We are a party to various legal proceedings incident to our business. Based upon the status of such cases, as determined with the advice of counsel, we have recorded provisions in our financial statements for amounts (if any) judged to be both quantifiable and probable to be paid. Except as noted below, there are no legal proceedings pending or threatened against us that we believe may have a significant effect on our financial condition or profitability.

*Patent Law-Based Claim*

On November 23, 2017, a former employee, whose employment had been terminated by our company in 2008 and who had previously unsuccessfully filed a suit against our company, brought an additional proceeding against us under Section 134 of the Israeli Patent Law seeking compensation and royalties for service inventions he invented while he served as an employee of our company. In this new proceeding, the former employee claims to be entitled to receive royalties in an amount equal to: (a) 20% of the benefits, revenues and /or savings generated by our company in the past and in the future, including the rise in the value of our company, as determined in the merger with Stratasys Inc., which took place in December 2012; (b) 20% of the gross profit generated by our company in the past and 9% of the gross profit produced and that will be produced by our company; (c) 20% of the gross profit generated by our company in the past and the relative share of the former Objet entity of our company in the total gross profit produced and that will be produced by our company; or (d) 20% of the value of the service inventions at issue. The former employee further sought an order of accounts. Our company rejects the claims that serve as a basis for the proceeding and is defending against them vigorously.

**Dividend Policy**

We have never paid cash dividends on our ordinary shares and do not anticipate that we will pay any cash dividends on our ordinary shares in the foreseeable future.

We intend to retain our earnings to finance the development of our business. Any future dividend policy will be determined by our board of directors based upon conditions then existing, including our earnings, financial condition, tax position and capital requirements, as well as such economic and other conditions as our board of directors may deem relevant. Pursuant to our articles of association, dividends may be declared by our board of directors. Dividends must be paid out of our profits and other surplus funds, as defined in the Companies Law, as of the end of the most recent year or as accrued over a period of the most recent two years, whichever amount is greater, provided that there is no reasonable concern that payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In addition, because we have received certain benefits under Israeli law relating to Approved Enterprises and Beneficiary Enterprises, our payment of dividends (out of tax-exempt income) may subject us to certain Israeli taxes to which we would not otherwise be subject. We are also restricted under our credit agreement with Bank of America from paying dividends. Please see the risk factors captioned “We do not anticipate paying any cash dividends in the foreseeable future. Therefore, if our share price does not appreciate, our shareholders may not recognize a return, and could potentially suffer a loss, on their investment in our ordinary shares,” and “Even if we decide to pay dividends on our ordinary shares, we may be restricted from doing so or payment of such dividends may have adverse consequences for our company” in Item 3.D “Risk Factors—Risks related to an investment in our ordinary shares” above.

For a discussion of the applicable rates of withholding tax on dividends paid out of income derived from an Approved Enterprise or a Beneficiary Enterprise, see “Israeli Tax Considerations and Government Programs — The Law for the Encouragement of Capital Investments” in Item 4.B above.

**B. Significant Changes.**

Other than as otherwise described in this annual report, no significant change has occurred in our operations since the date of our consolidated financial statements included in this annual report.

**Table of Contents****ITEM 9. THE OFFER AND LISTING.****A. Listing Details.**

Since December 3, 2012 (the first trading day after the effective time of the Stratasys, Inc.- Objet Ltd. merger), our ordinary shares have traded (and, prior to that time, Stratasys, Inc. common stock was traded) on the NASDAQ Global Select Market under the trading symbol "SSYS." The following table sets forth the high and low closing sales prices of our ordinary shares for the fiscal periods indicated below, as reported on the NASDAQ Global Select Market.

	<b>Price Range</b>	
	<b>High (U.S. \$)</b>	<b>Low (U.S. \$)</b>
<b>Fiscal Period:</b>		
<b>Six most recent months:</b>		
February 2019 (through February 22, 2019)	28.40	25.49
January 2019	25.53	17.96
December 2018	21.73	17.41
November 2018	24.31	20.86
October 2018	22.56	19.06
September 2018	24.16	22.60
August 2018	25.73	21.30
<b>Two most recent full financial years and subsequent periods, by quarter:</b>		
<b>Fiscal Year Ending December 31, 2019</b>		
January 1, 2019 - February 22, 2019 only	28.40	17.96
<b>Fiscal Year Ending December 31, 2018</b>		
October 1, 2018 - December 31, 2018	24.31	17.41
July 1, 2018 - September 30, 2018	25.73	19.10
April 1, 2018 - June 30, 2018	21.52	17.35
January 1, 2018 - March 31, 2018	23.30	18.23
<b>Fiscal Year Ended December 31, 2017</b>		
October 1, 2017 - December 31, 2017	24.53	19.96
July 1, 2017 - September 30, 2017	25.11	20.95
April 1, 2017 - June 30, 2017	30.66	19.91
January 1, 2017 - March 31, 2017	21.97	17.77
<b>Five most recent full financial years</b>		
2018	25.73	17.35
2017	30.66	17.77
2016	29.35	15.24
2015	81.05	22.58
2014	136.46	78.64

Our ordinary shares, par value NIS 0.01 per share, are registered on the books of our transfer agent, Continental Stock Transfer & Trust Company. There are no transfer restrictions apart from the requirement that any transfers comply with applicable securities laws and the rules of the NASDAQ Stock Market or any other securities exchange on which our ordinary shares may be listed in the future.

**ITEM 10. ADDITIONAL INFORMATION.****A. Share Capital.**

Not applicable

**B. Memorandum and Articles of Association.****Purposes and Objects of the Company**

We are a public company registered under Israel's Companies Law as Stratasys Ltd., registration number 51-260769-8. Under our memorandum of association, our purpose includes every lawful purpose.

**Powers of Directors**



## Edgar Filing: STRATASYS LTD. - Form 20-F

Under the provisions of the Companies Law and our amended articles, the management of the business of the Company is vested in our board of directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do. For certain approval requirements, disclosure obligations and limitation on participation of members of our board in board meetings, see “Fiduciary Duties of Officer Holders — Approval of Specified Related Party Transactions with Office Holders Under Israeli Law” in Item 6.C – “Board Practices” above, and the remainder of this Item 10.B below.

## **Table of Contents**

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except to the same degree as any other transaction into which we may enter.

Our amended articles do not impose any mandatory retirement or age-limit requirements on our directors, and our directors are not required to own shares in our company in order to qualify to serve as directors.

## **Rights Attached to Shares**

Our authorized share capital consists of 180,000,000 ordinary shares of a nominal value of NIS 0.01 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable.

The rights attached to the ordinary shares are as follows:

*Dividend Rights.* Our board of directors may, in its discretion, declare that a dividend be paid pro rata to the holders of ordinary shares. Dividends must be paid out of our profits and other surplus funds, as defined in the Companies Law, as of the end of the most recent year or as accrued over a period of two years, whichever is greater, provided that there is no reasonable concern that payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Under the Companies Law, the declaration of a dividend does not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. Our amended articles provide that our board of directors may declare and distribute dividends without the approval of the shareholders.

*Rights to Share in the Company's Profits.* Our shareholders have the right to share in our profits distributed as a dividend or via any other permitted distribution. See "Rights Attached to Shares — Dividend Rights", in this Item 10.B above.

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

*Limited Liability.* Our company is a limited liability company, and therefore, each shareholder's liability for our obligations is limited to the payment of the nominal value of the shares held by such shareholder, subject to the provisions of the Companies Law.

*Limitations on Any Existing or Prospective Major Shareholder.* See "Board Practices - Approval of Specified Related Party Transactions with Office Holders Under Israeli Law" in Item 6.C above.

*Voting Rights.* Holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Shareholders may vote at a shareholders' meeting either in person or by proxy. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. There are currently no preferred shares outstanding.

The Companies Law imposes certain duties on our shareholders. A shareholder, in exercising his or her rights and performing his or her obligations to our other shareholders and us, must act in good faith and in an acceptable manner, and avoid abusing his or her powers. This duty is required when voting at general meetings on matters such as changes to our articles of association, increases to our registered capital, mergers and related party transactions. A shareholder also has a general duty to refrain from depriving any other shareholder of his or her rights as a shareholder. In addition, any controlling shareholder, any shareholder who knows that his or her vote can determine the outcome of a shareholder vote and any shareholder who, under our amended articles, can appoint or prevent the appointment of an office holder, is required to act fairly towards our company. The Companies Law does not specifically define the duty of fairness, but provides that the remedies generally available upon a breach of contract will apply also in the event of a breach of the duty to act with fairness. There is no binding case law that addresses this subject directly. Any voting agreement among shareholders is also subject to these duties.

## **Election of Directors**

Directors of our company, other than external directors (to the extent that we elect, or are required, to have them once again in the future), are elected each year at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented at the meeting. See "Item 6.C Board Practices—Board of Directors" above. Our ordinary shares do not have cumulative voting rights for this purpose. As a result, holders of our ordinary shares that represent more than 50% of the voting power represented at a shareholders' meeting at which a quorum is present will have the power to elect any or all of our directors whose positions are being filled at that meeting, subject to the special approval requirements for external directors described under "Board Practices—External Directors" in Item 6.C above.

In addition, pursuant to the Companies Law and our amended articles, any shareholder holding at least one percent (1%) of our outstanding voting power may make nominations for directors only if a written notice of such shareholder's intent to make such nomination (together with certain documentation required under the Companies Law) has been delivered to our registered Israeli office within seven days after we publish notice of our upcoming annual general meeting (or within 14 days after we publish a preliminary notification of an upcoming annual general meeting).

#### **Annual and Extraordinary Meetings**

Our board of directors must convene an annual general meeting of shareholders at least once every calendar year, within fifteen months of the last annual general meeting.

All meetings other than the annual general meeting of shareholders are referred to as extraordinary general meetings. Our board of directors may call extraordinary 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 and our amended articles provide that our board of directors will be required to convene an extraordinary general meeting upon the written request of (i) any two of our directors or one-quarter of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% of our outstanding issued shares and 1% of our outstanding voting power or (b) 5% of our outstanding voting power. The chairman of the board of directors presides at each of our general meetings. The chairman of the board of directors will not be entitled to vote at a general meeting in his capacity as chairman.

**Table of Contents**

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders that will be entitled to participate and vote at general meetings are the shareholders of record on a date decided by our board of directors, which may be between four and 40 days prior to the date of the meeting. Furthermore, the Companies Law and our amended articles require that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

amendments to the amended articles;

appointment or termination of our auditors;

appointment of directors and appointment and dismissal of external directors;

approval of acts and transactions involving related parties, as defined by the Companies Law or pursuant to our amended articles;

director compensation;

increases or reductions of our authorized share capital;

a merger; and

the exercise of our board of directors' powers by a general meeting, if the board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

***Notices***

The Companies Law and the amended articles require that a notice of any annual general meeting or extraordinary general meeting be published and provided to shareholders at least 21 days prior to the meeting, and if the agenda of the meeting includes the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, or an approval of a merger, notice must be published at least 35 days prior to the meeting.

***Quorum***

The quorum required for a general meeting of our shareholders consists of at least two shareholders present in person, by proxy or written ballot who hold or represent between them at least twenty-five percent (25%) of the total outstanding voting rights. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place, or to a later time/date if so specified in the summons or notice of the meeting. At the reconvened meeting, if the original meeting was convened upon requisition under the Companies Law, the required quorum consists of one or more shareholders, present in person or by proxy, and holding the number of shares required for making such requisition, and, in any other reconvened meeting, the quorum that is required is any two shareholders present in person or by proxy (regardless of how many shares they hold).

***Adoption of Resolutions***

Our amended articles provide that all resolutions of our shareholders require the approval of a majority of the voting power present and voting at a general meeting, unless otherwise required by the Companies Law or by the amended articles. Under the Companies Law and the amended articles, shareholders are not permitted to take action via written consent in lieu of a meeting. 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 not extraordinary) require, in addition to approval by the compensation committee (in the case of terms of employment) or audit committee (in the case of some other engagement) and the board of directors, approval by a special majority of the shareholders that fulfills one of the following requirements:

a disinterested majority; or

the votes of shareholders who have no personal interest in the transaction and who are present and voting, in person, by proxy or by voting deed at the meeting, and who vote against the transaction may not represent more than two

percent (2%) of the voting rights of the company.

Under our amended articles, if the share capital is divided into classes, the alteration of the rights, privileges, preferences or obligations of any class of share capital requires approval by a simple majority of the class so affected (or such other percentage of the relevant class that may be set forth in the governing documents relevant to such class), in addition to the ordinary majority vote of all classes of shares voting together as a single class at a general meeting, as required under the Companies Law.

Further exceptions to the simple majority vote requirement are 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, by proxy or by voting deed and voting on the resolution.

## **Table of Contents**

Israeli law provides that a shareholder of a public company may vote in a meeting and in a class meeting by means of a voting deed in which the shareholder indicates how he or she votes on resolutions relating to the following matters:

appointment or removal of directors;

approval of transactions with office holders or interested or related parties;

approval of a merger or any other matter in respect of which there is a provision in the articles of association providing that decisions of the general meeting may also be passed by voting deed;

approval of an arrangement or reorganization of the company pursuant to Section 350 of the Israeli Companies Law; and

other matters which may be prescribed by Israel's Minister of Justice.

The provision allowing the vote by voting deed does not apply if, to the best knowledge of the company at the time of calling the general shareholders' meeting, a controlling shareholder will hold on the record date for such shareholders' meeting, voting power sufficient to determine the outcome of the vote.

## **Changing Rights Attached to Shares**

The rights attached to any class of shares, such as voting, liquidation and dividend rights, may be amended by adoption of a resolution by the holders of a majority of the shares of that class present at a separate class meeting, or otherwise in accordance with the rights attached to such class of shares, as set forth in our amended articles.

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

Neither our memorandum of association nor our amended articles, nor the laws of the State of Israel, restrict in any way the ownership or voting of shares by non-residents, except with respect to citizens of countries that are in a state of war with Israel.

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

### ***Full Tender Offer***

A person wishing to acquire shares of a public Israeli company and who could as a result hold over 90% of the target company's issued and outstanding share capital or voting rights 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 could as a result hold over 90% of the issued and outstanding share capital or voting rights 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 and voting rights of the company or of the applicable class, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law (provided that a majority of the offerees that do not have a personal interest in such tender offer shall have approved it, which condition shall not apply if, following consummation of the tender offer, the acquirer would hold at least 98% of all of the company's outstanding shares and voting rights (or shares and voting rights of the relevant class)). However, shareholders may, at any time within six months following the completion of the tender offer, petition the court to alter the consideration for the acquisition. Even shareholders who indicated their acceptance of the tender offer may so petition the court, unless the acquirer stipulated that a shareholder that accepts the offer may not seek appraisal rights). If the shareholders who did not accept the tender offer hold 5% or more of the issued and outstanding share capital or voting rights of the company or of the applicable class, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or voting rights or 90% of the shares or voting rights of the applicable class, from shareholders who accepted the tender offer.

### ***Special Tender Offer***

The Companies Law provides that an acquisition of shares of a public Israeli company must be made by means of a special tender offer if as a result of the acquisition the purchaser could become a holder of 25% or more of the voting rights in the company, unless one of the exemptions in the Companies Law (as described below) is met. This rule 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 tender offer if as a result of the acquisition the purchaser could become a holder of more than 45% of the voting rights in the company, if there is no

## Edgar Filing: STRATASYS LTD. - Form 20-F

other shareholder of the company who holds more than 45% of the voting rights in the company, unless one of the exemptions in the Companies Law is met.

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) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If a special tender offer is accepted, then 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.

## **Table of Contents**

### ***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 shares, and, in the case of the target company, a majority vote of each class of its shares, voted on the proposed merger at a shareholders meeting called with at least 35 days' prior notice.

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 shareholders' meeting 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 in this annual report under "Item 6.C Board Practices—Approval of Related Party Transactions Under Israeli Law—Disclosure of Personal Interests of Controlling Shareholders").

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 request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders of the company that have petitioned the court to approve the merger.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, 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 was filed by each party 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, distributions or other matters and shares having preemptive rights. Currently, no preferred shares are authorized under our amended 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 amended articles, which requires the prior approval of the holders of a majority of the voting power present and voting at a general meeting. The convening of the meeting, the shareholders entitled to participate in such meeting, 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 this Item 10.B under "Memorandum and Articles of Association—Rights Attached to Shares—Voting Rights."

The foregoing description includes only a summary of certain provisions of the Companies Law and our memorandum of association and articles and is qualified in its entirety by reference to the full text of such documents, which are exhibits to this annual report.

### **C. Material Contracts.**

We have not entered into 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 herein in Item 4.A—"History and Development of the Company", Item 4.B—"Business Overview", Item 5.B—"Operating and Financial Review and Prospects—Liquidity and Capital Resources", Item 6.C—"Board Practices—Director Service Contracts" and Item 7.B—"Related Party Transactions".

### **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 ordinary shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

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



**E. Taxation.**

*The following is a short summary of certain provisions of the tax environment to which shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts.*

*The summary does not address all of the tax consequences that may be relevant to all purchasers of our ordinary shares in light of each purchaser's particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our ordinary shares should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.*

**Table of Contents****Israeli Taxation Considerations**

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

***Israeli resident individuals******Capital Gain***

As of January 1, 2006, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares which had been purchased on or after January 1, 2003, whether or not listed on a stock exchange, is 20%, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "Significant Shareholder" (*i.e.* a person who holds, directly or indirectly, alone or together with 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 the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 25%. Individual shareholders dealing in securities in Israel are taxed at their marginal tax rates applicable to business income (up to 47% in 2018) unless the benefiting provisions of an applicable treaty applies.

Notwithstanding the foregoing, pursuant to the Law for Change in the Tax Burden (Legislative Amendments) (Taxes), 2011, the capital gain tax rate applicable to individuals was raised from 20% to 25% from 2012 and onwards (or from 25% to 30% if the selling individual shareholder is a Significant Shareholder at any time during the 12-month period preceding the sale and/or claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares). With respect to assets (not shares that are listed on a stock exchange) purchased on or after January 1, 2003, the portion of the gain generated from the date of acquisition until December 31, 2011 will be subject to the previous capital gains tax rates (20% or 25%) and the portion of the gain generated from January 1, 2012 until the date of sale will be subject to the new tax rates (25% or 30%).

***Dividend Income***

Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our ordinary shares (other than bonus shares or share dividends) at 25%, or 30% if the recipient of such dividend is a Significant Shareholder, at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income allocated and accrued during the benefits period of an Approved Enterprise or Beneficiary Enterprise are subject to withholding tax at the rate of 15% (and 20% with respect to Preferred Enterprise), if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period except with respect to an FIC, in which case the 12-year limit does not apply. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Beneficiary/ Preferred income).

***Israeli resident corporations******Capital Gain***

Under current Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described in "Israeli Tax Considerations and Government Programs — General Corporate Tax Structure" in Item 4.B above, the corporate tax rate was 25% in 2016, 24% in 2017, and is 23% from 2018 and onwards.

***Dividend Income***

Generally, Israeli resident corporations are exempt from Israeli corporate tax on the receipt of dividends paid on shares of Israeli resident corporations. However, dividends distributed from taxable income accrued during the benefits period of an Approved Enterprise or Beneficiary Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after that period, except with respect to a FIC, in which case the 12-year limit does not apply.

*Non-Israeli Residents*

*Capital Gain*

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 tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain is generally subject to tax at the corporate tax rate (25% in 2016, 24% in 2017 and 23% in 2018 and thereafter), if generated by a company, or at the rate of 25% (for any asset other than shares that are listed on a stock exchange - 20% with respect to the portion of the gain generated up to December 31, 2011) or 30% (for any asset other than shares that are listed on a stock exchange - 25% with respect to the portion of the gain generated up to December 31, 2011), if generated by an individual who is Significant Shareholder at the time of sale or at any time during the preceding 12-month period (or claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares) from the sale of assets purchased on or after January 1, 2003. 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 2018) unless contrary provisions in a relevant tax treaty applies.

**Table of Contents**

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) should generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel; (ii) the shares were purchased after being listed on a recognized stock exchange and (iii) with respect to shares listed on a recognized stock exchange outside of Israel, such shareholders are not subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985. However, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (a) have a controlling interest of more than 25% in such non-Israeli corporation, or (b) 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. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of shares may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, to which we refer as the U.S.-Israel Treaty, the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Treaty) holding the shares as a capital asset is exempt from Israeli capital gains tax unless either (i) 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 disposition, (ii) the shareholder, if an individual, has been present in Israel for a period or periods of 183 days or more in the aggregate during the applicable taxable year, (iii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder which is maintained in Israel, (iv) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel, or (v) the capital gains arising from such sale, exchange or disposition is attributed to royalties on copyright or film. In any such case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Treaty, a U.S. resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Treaty does not provide such credit against any 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, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

*Dividend Income*

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on ordinary shares at the rate of 25% or 30% (if the dividend recipient is a Significant Shareholder at the time of distribution or at any time during the preceding 12-month period) or 15% if the dividend is distributed from income attributed to our Approved Enterprise or Beneficiary Enterprise (and 20% with respect to Preferred Enterprise). 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 Significant Shareholder or not) and 15% if the dividend is distributed from income attributed to an Approved Enterprise or a Beneficiary Enterprise (and 20% if the dividend is distributed from income attributed to a Preferred Enterprise), unless a reduced rate is provided 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). For example, under the U.S.-Israel 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 U.S.-Israel Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our Approved Enterprise or Beneficiary Enterprise, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital 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 no more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise or Beneficiary Enterprise are subject to a withholding tax rate of 15% 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. The aforementioned rates will not apply if the dividend income was generated through a permanent establishment of the U.S. resident that is maintained in Israel. If the dividend is attributable partly to income derived from an Approved Enterprise, a Beneficiary Enterprise or Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. 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 the Code.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed, and (iii) the taxpayer is not obligated to pay excess tax (as further explained below).



**Table of Contents**

***Excess Tax***

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 641,880 for 2018, which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

**U.S. Federal Income Tax Considerations**

Subject to the limitations described in the following paragraphs, the discussion below describes the material U.S. federal income tax consequences to a beneficial owner of our ordinary shares, referred to in this discussion as a U.S. holder that is:

an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the law of the United States or of any state or the District of Columbia;

an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or

a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

This summary is not a comprehensive description of all of the tax considerations that may be relevant to each person's decision to purchase, hold or dispose of ordinary shares. This summary considers only U.S. holders that hold ordinary shares as capital assets.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, to which we refer as the Code, current and proposed Treasury regulations, and administrative and judicial decisions as of the date of this annual report, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular shareholder based on the shareholder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to U.S. holders that are subject to special treatment, including U.S. holders that:

are broker dealers or insurance companies;

have elected mark-to-market accounting;

are tax-exempt organizations;

are financial institutions or financial services entities;

are partnerships or other entities treated as partnerships for U.S. federal income tax purposes or partners thereof or members therein;

hold ordinary shares as part of a straddle, hedge, conversion or other integrated transaction with other investments;

own directly, indirectly or by attribution at least 10% of our voting power; or

have a functional currency that is not the U.S. dollar.

In addition, this discussion does not address any aspect of state, local or non-U.S. tax laws, or the possible application of the U.S. federal estate or gift tax or any state inheritance, estate or gift tax.

Material aspects of U.S. federal income tax law relevant to a holder other than a U.S. holder, referred to in this discussion as a non-U.S. holder, are also discussed below.

**Each prospective investor is advised to consult his or her own tax adviser for the specific tax consequences to that investor of purchasing, holding or disposing of our ordinary shares.**

*Taxation of Dividends Paid on Ordinary Shares*

Subject to the discussion below under “Tax Consequences if We Are a Passive Foreign Investment Company,” a U.S. holder will be required to include in gross income as ordinary income the gross amount of any distribution paid on ordinary shares, including any Israeli taxes withheld from the amount paid, on the date the distribution is actually or constructively received, to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes.” In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See “Tax on Net Investment Income” in this Item below.

Dividends that are received by U.S. holders that are individuals, estates or trusts generally will be taxed at the rate applicable to long-term capital gains (a maximum rate of 15% or 20%, in case of taxpayers with annual taxable income which exceeds certain thresholds), provided those dividends meet the requirements of “qualified dividend income.” Dividends that fail to meet these requirements, and dividends taxable to corporate U.S. holders, are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to the dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, the ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a “passive foreign investment company” (as that term is defined in the Code) for any year, dividends paid on our ordinary shares in that year or in the year following that year would not be qualified dividends. In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so, in which case the dividend will be taxed at ordinary income rates. Corporate holders will not be allowed a deduction for dividends received in respect of our ordinary shares.

## **Table of Contents**

Dividends on our ordinary shares will be foreign source passive income (or in some cases, general category income) for U.S. foreign tax credit purposes. Distributions in excess of earnings and profits will be applied against and will reduce, on a share-by-share basis, the U.S. holder's basis in the ordinary shares and, to the extent in excess of that basis, will be treated as gain from the sale or exchange of ordinary shares.

The amount of a distribution paid to a U.S. holder in a foreign currency will be the U.S. dollar value of the foreign currency calculated by reference to the spot exchange rate on the day the U.S. holder receives the distribution. A U.S. holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars after receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

U.S. holders will have the option of claiming the amount of any Israeli income taxes withheld at source either as a deduction from gross income or as a dollar-for-dollar credit against their U.S. federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld, but the amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of foreign income taxes that may be claimed as a credit in any year is generally subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. Those limitations include the provisions described in the following paragraphs, as well as rules that limit foreign tax credits allowable for a class of income to the U.S. federal income taxes otherwise payable on the net income in that class.

A U.S. holder will be denied a foreign tax credit for Israeli income tax withheld from dividends received on our ordinary shares:

if the U.S. holder has not held the ordinary shares for at least 16 days of the 30-day period beginning on the date that is 15 days before the ex-dividend date; or

to the extent that the U.S. holder is under an obligation to make related payments on substantially similar or related property.

Any days during which a U.S. holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. A foreign tax credit for the Israeli tax can be deferred if the U.S. holder enters into certain types of arrangements to defer inclusion of the related dividend in income for tax purposes.

### ***Taxation of the Disposition of Ordinary Shares***

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," upon the sale, exchange or other taxable disposition of our ordinary shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder's basis in the ordinary shares, which is usually the cost to the U.S. holder of the shares, and the amount realized on the disposition. Capital gain from the sale, exchange or other disposition of ordinary shares held more than one year is long-term capital gain and is eligible for a reduced rate of taxation in the case of non-corporate taxpayers. Gain or loss recognized by a U.S. holder on the sale, exchange or other disposition of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

A U.S. holder that uses the cash method of accounting calculates the U.S. dollar value of foreign currency proceeds received on a sale as of the date on which the U.S. holder receives the foreign currency. However, a U.S. holder that uses an accrual method of accounting is required to calculate the value of the proceeds of the sale as of the date of sale and may therefore realize foreign currency gain or loss on a subsequent disposition of the foreign currency based on any subsequent appreciation or depreciation in the value of the foreign currency against the U.S. dollar. That gain or loss will generally be U.S. source ordinary income or loss.

### ***Tax Consequences if We Are a Passive Foreign Investment Company***

We will be a passive foreign investment company, to which we refer as a PFIC, if 75% or more of our gross income in a taxable year, including our pro rata share of the gross income of any corporation in which we are considered to own 25% or more of the shares by value (subject to certain exceptions in the case of a U.S. corporation), is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, ordinarily determined based on the quarter-end average fair market value of our assets over the taxable year and including the pro rata share of the assets of any corporation in which we are considered to own 25% or more of the shares by value (subject to certain exceptions in the case of a U.S. corporation), produce or are held for the production of passive income.



## **Table of Contents**

If we were a PFIC, and a U.S. holder did not make, as described below, a timely election either to treat us as a qualified electing fund or, if the election is available, to mark our shares to market, any excess distributions we pay to a U.S. holder would be taxed in a special way. Excess distributions are amounts paid on shares in a PFIC in any taxable year that exceed 125% of the average distributions paid on those shares in the shorter of:

the three previous years; and

the U.S. holder's holding period for ordinary shares before the present taxable year.

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder would then be required to include amounts allocated to the current taxable year and each prior year in which we were not a PFIC (but not before our first taxable year beginning after December 31, 1986) in its gross income as ordinary income for the current year. Further, a U.S. holder would be required to pay tax on amounts allocated to each prior taxable year in which we were a PFIC at the highest rate in effect for that year on ordinary income, and the tax for each such year would be subject to an interest charge at the rate applicable to deficiencies for income tax.

The entire amount of gain that is realized or treated as realized by a U.S. holder upon the sale or other disposition of ordinary shares (generally whether or not the disposition is a taxable transaction) will also be treated as an excess distribution and will be subject to tax as described in the preceding paragraph.

In some circumstances a U.S. holder's tax basis in our ordinary shares that were inherited from a deceased person who was a U.S. holder would not equal the fair market value of those ordinary shares as of the date of the deceased person's death but would instead be equal to the deceased's basis, if lower.

The special PFIC rules described above will not apply to a U.S. holder if that U.S. holder makes an election to treat us as a qualified electing fund, to which we refer as a QEF, in the first taxable year in which the U.S. holder owns ordinary shares, provided we comply with specified reporting requirements. Instead, a U.S. holder who has made such a QEF election is required for each taxable year in which we are a PFIC to include in income a pro rata share of our ordinary earnings as ordinary income and a pro rata share of our net capital gain as long-term capital gain, subject to a separate election to defer payment of the related tax. If deferred, the taxes will be subject to an interest charge. We would supply U.S. holders with the information needed to report income and gain under a QEF election if we were classified as a PFIC.

The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the Internal Revenue Service, to which we refer as the IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed U.S. federal income tax return and by filing a copy of the form with the IRS Service Center in Ogden, UT 84201-0201. Even if a QEF election is not made, a United States person who is a shareholder in a PFIC must file every year a completed IRS Form 8621 or other form as may be prescribed by the IRS pursuant to legislation requiring annual reports with respect to PFICs.

A U.S. holder of PFIC shares that are publicly traded may elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC shares and the U.S. holder's adjusted tax basis in the PFIC shares. Losses would be allowed only to the extent of net mark-to-market gain previously included in income by the U.S. holder under the election for prior taxable years. If the mark-to-market election were made, then the rules described above (other than the rules for excess distributions, which would apply to the first year the election is made if we were a PFIC in a prior year and a QEF election were not made for the first year we were a PFIC) would not apply for periods covered by the election.

Although we do not believe that we were a PFIC in 2018, we cannot assure you that the IRS will agree with that conclusion or that we will not become a PFIC in 2019 or in a subsequent year. The tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. U.S. holders who hold ordinary shares during a period when we are a PFIC will be subject to these rules, even if we cease to be a PFIC in later years, subject to specified exceptions for U.S. holders who made a QEF election in the first year they held our ordinary shares and we were a PFIC or if in a later year they made any of certain elections to purge the PFIC taint of our ordinary shares, which elections generally require the payment of tax. U.S. holders are urged to consult their tax advisers about the PFIC rules, including QEF and mark-to-market elections.

## ***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,

Edgar Filing: STRATASYS LTD. - Form 20-F

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 our ordinary shares.

81

---

## **Table of Contents**

### ***Tax Consequences for Non-U.S. Holders of Ordinary Shares***

Except as described in “Information Reporting and Backup Withholding” below, a non-U.S. holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, ordinary shares, unless:

the income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country that has an income treaty with the United States, the income is attributable to a U.S. permanent establishment, or, in the case of an individual, a fixed place of business in the United States;

the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or

the non-U.S. holder is subject to tax under the provisions of U.S. tax law applicable to U.S. expatriates.

A non-U.S. holder is a beneficial owner of our ordinary shares that is (1) a nonresident alien as to the United States for U.S. federal income tax purposes; (2) a corporation created or organized in or under the law of a country, or any of its political subdivisions, other than the United States; or (3) an estate or trust that is not a U.S. holder.

### ***Information Reporting and Backup Withholding***

U.S. holders generally are subject to information reporting requirements for dividends paid in the United States on ordinary shares. Dividends paid in the United States to a U.S. holder on ordinary shares are subject to backup withholding at a rate of 24% unless the U.S. holder provides IRS Form W-9 or establishes an exemption. U.S. holders generally are subject to information reporting and backup withholding at a rate of 28% (24% for years after 2017) on proceeds paid from the disposition of ordinary shares unless the U.S. holder provides IRS Form W-9 or establishes an exemption.

The Foreign Account Tax Compliance Act, or FATCA, was enacted during 2014. FATCA generally requires foreign financial institutions (FFIs) to identify U.S. account holders and report them to the IRS or pay a 30% withholding tax. Nonfinancial foreign entities (or NFFE) are required to report their substantial U.S. owners to withholding agents or pay a 30% withholding tax. FATCA’s objective is to prevent tax evasion by requiring the disclosure of account holder information to the IRS. Because Stratasys is a publicly traded company that is not a financial institution, FATCA has less impact than the rules discussed above that are still in effect for withholding tax purposes.

A non-U.S. holder who effects the sale of his ordinary shares by or through a U.S. office of a broker is subject to both information reporting and backup withholding tax on the payment of the proceeds unless he certifies, under penalties of perjury, that he is not a U.S. person or otherwise establishes an exemption. If a non-U.S. holder sells his ordinary shares through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to the holder outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to a non-U.S. holder outside the United States, if the holder sells his ordinary shares through a non-U.S. office of a broker that is a U.S. person or has some other contacts with the United States. Those information reporting requirements will not apply, however, if the broker has documentary evidence in its records that the holder is a non-U.S. person and certain other conditions are met, or the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. or non-U.S. holder’s U.S. federal income tax liability, and a taxpayer generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed the taxpayer’s U.S. federal income tax liability by filing a refund claim with the IRS, provided in each case that required information is furnished to the IRS.

### ***Information Reporting by Certain U.S. Holders***

U.S. citizens and individuals taxable as resident aliens of the United States that own “specified foreign financial assets” with an aggregate value in a taxable year in excess of certain thresholds (as determined under Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be “specified foreign financial assets.” Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. holder is urged to consult his tax adviser regarding his reporting obligation.



**Table of Contents**

**F. Dividends and Paying Agents.**

Not applicable.

**G. Statement by Experts.**

Not applicable.

**H. Documents on Display.**

We are subject to the informational requirements of the Exchange Act. In accordance with these requirements, we are required to file reports and other information with the SEC. You may read and copy these materials, including this annual report and the accompanying exhibits and reports and other information that we have previously filed, at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1(800)-SEC-0330. The SEC maintains an Internet Site at <http://www.sec.gov> that contains reports and other information that we file electronically. The reports and other information filed by us with the SEC are also available at our websites, [www.stratasys.com](http://www.stratasys.com) and [www.objet.com](http://www.objet.com). The web addresses of the SEC and our company have been included as inactive textual references only. Information on those websites is not part of this annual report. In addition, documents referred to in this annual report may be inspected at the offices of the NASDAQ Global Select Market, 1735 K Street, N.W., Washington, D.C. You can also obtain copies of reports and other information that we file electronically, without charge, by requesting them in writing or by telephone from our company at the following address:

Stratasys Ltd.  
c/o Stratasys, Inc.  
9600 West 76th  
Eden Prairie, Minnesota 55344  
Attention: Yonah Lloyd, Vice President of Investor Relations  
Tel: (952) 937-3000

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing 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 United States companies whose securities are registered under the Exchange Act.

**I. Subsidiary Information.**

Not Applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Market risk is the risk of loss related to changes in market prices, including interest rates and foreign exchange rates, of financial instruments that may adversely impact our consolidated balance sheets, statements of operations or cash flows.

**Table of Contents**

***Foreign Currency Exchange Risk***

Due to our international operations, currency exchange rates impact our financial performance.

The majority of our balance sheet exposure relates to foreign currency assets and liabilities in entities which their functional currency is Euro. Our net Euro balance sheet exposure as of December 31, 2018 was approximately \$89.9 million.

Our total revenues amounted to \$663.2 million in 2018, of which approximately 17.6% were denominated in Euros. During 2018, our Euro-denominated revenues exceeded our Euro-denominated expenses. Conversely, our expenses denominated in shekels are higher than our expected shekel-denominated revenues. For those currencies which do not have a sufficient natural hedge within our operations (such as offsetting revenues and expenses recorded in a given currency, or some other hedge), we may choose to hedge in order to reduce the impact of currency fluctuations on our operating results. In 2018, we entered into hedging transactions to reduce our potential currency exposure related to the U.S. dollar against each of the Euro and the New Israeli Shekel. Our foreign exchange forward contracts in effect as of December 31, 2018 were for the conversion of \$36.9 million into Euro and \$44.4 million into NIS.

The net effect of these risks stemming from currency exchange rate fluctuations on our operating results can be quantified as follows:

- (i) A change of 10% in the value of the Euro relative to the U.S. dollar in the year ended December 31, 2018 would have resulted in a change in the U.S. dollar reporting value of our consolidated operating income of \$7.1 million for that year, mainly due to revenues earned in Euros.
- (ii) A change of 10% in the value of the shekel relative to the dollar in the year ended December 31, 2018 would have resulted in a change in the dollar-reported value of our consolidated operating income of \$10.6 million, mainly due to shekel-recorded expenses.

We will continue to monitor exposure to currency fluctuations. Instruments that may be used to protect us against future risks may include foreign currency forward and swap contracts. These instruments may be used to selectively manage risks, but there can be no assurance that we will be fully protected against material foreign currency fluctuations. We do not use derivative financial instruments for speculative or trading purposes.

**Interest Rate Risk**

Our cash and cash equivalents are held primarily in bank deposits with maturities of less than 90 days, and our short-term bank deposits have maturities of more than 90 days. Both are subject to limited interest rate risk, with an average interest rate of 2.30%. In addition, the outstanding balance of our Bank Loan as of December 31, 2018 was \$27.1 million and bear an average interest rate of 5.46%. An immediate 10% change in interest rates would not have a material effect on our financial condition or results of operations.

**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.**

None

**Table of Contents**

**ITEM 15. CONTROLS AND PROCEDURES.**

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

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of 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, 2018, the end of the period covered by this annual report. We maintain disclosure controls and procedures designed to ensure that the information required to be disclosed by us in filings and submissions under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2018.

**(b) Management's Annual Report on Internal Control Over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated 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.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making our assessment, our management used the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such assessment, management has concluded that, as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

Kesselman & Kesselman, an independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, to which we refer as PwC, which audited the financial statements included in this annual report containing the disclosure required by this Item 15 has issued an attestation report regarding the effectiveness of our internal control over financial reporting.

**(c) Attestation Report of Registered Public Accounting Firm.**

PwC's attestation report regarding the effectiveness of our internal control over financial reporting is included in "Item 18—Financial Statements" on page F-1 of this annual report, which attestation report is incorporated by reference in this Item 15(c).

**(d) Changes in Internal Control over Financial Reporting.**

Based on the evaluation conducted by our management, with the participation of our chief executive officer and chief financial officer, pursuant to Rules 13a-15(d) and 15d-15(d) promulgated under the Exchange Act, our management (including such officers) have concluded that 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 16A. AUDIT COMMITTEE FINANCIAL EXPERT.**

Our board of directors has determined that Mr. Yair Seroussi, who serves on the audit committee of our board of directors, meets the requirements of an "audit committee financial expert", as defined in Item 407(d)(5) of SEC Regulation S-K and Item 16A of SEC Form 20-F and is an independent director, as defined in Rule 5600(a)(2) of the NASDAQ Listing Rules.

**ITEM 16B. CODE OF ETHICS.**

## Edgar Filing: STRATASYS LTD. - Form 20-F

We have adopted a Code of Business Conduct and Ethics, which we to which we refer as the code of ethics, that applies to all directors, officers, and employees of our company and its subsidiaries, including our principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions for us. A copy of the code of ethics has been posted on our Internet website, <http://investors.stratasys.com/governance.cfm> and is incorporated herein by reference. The foregoing website has been provided as an inactive textual reference only, and the content of that website is not a part of this annual report.

The code of ethics, as it appears at the above website, constitutes an amended and restated version that was adopted by our board of directors in 2017. The amended and restated version reflects modernizing revisions designed to make the code of ethics more “user friendly” for our directors, officers, and employees, in keeping with best practices for public companies of our size. The amended version does not alter the code of ethics’ treatment of any of the elements of the code of ethics definition enumerated in Item 16B(b) of Form 20-F as applicable to our principal executive officer, principal financial officer, principal accounting officer or controller.



**Table of Contents****ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table sets forth, for the years ended December 31, 2018 and 2017, the fees billed to us and our subsidiaries by our principal accountant. <sup>(1)</sup>

	Year ended December 31,	
	2018	2017
Audit fees <sup>(2)</sup>	\$ 933,200	\$ 907,500
Tax fees <sup>(3)</sup>	116,132	131,205
All other fees <sup>(4)</sup>	6,800	11,300
<b>Total</b>	<b>\$ 1,056,132</b>	<b>\$ 1,050,005</b>

Comprised by fees billed by Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, an independent registered public accounting firm, or Kesselman & Kesselman (which served as our principal accountant with respect to the years ended (1) December 31, 2017 and 2018).

Audit fees consist of fees for professional services rendered by our principal accountant in connection with the audit of our consolidated annual financial statements and services that would normally be provided by our principal accountant in connection with statutory and (2) regulatory filings or engagements.

(3) Tax fees are fees for services rendered by our principal accountant in connection with tax compliance, tax planning and tax advice.

(4) All other fees are fees for other consulting services (if any) rendered by our principal accountant to us.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

None.

**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 will 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 Global Select Market corporate governance rules.

Quorum for Shareholder Meetings: As permitted under the Companies Law, under a recent amendment adopted to our amended and restated articles of association, 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 1/3% of the issued share capital required under the NASDAQ Listing Rules.

Executive Sessions of Independent Directors: Under the Companies Law, our independent directors (as defined under the NASDAQ Listing Rules) do not need to meet regularly in sessions at which only they are present, as is required of U.S. domestic issuers under NASDAQ Listing Rule 5605(b)(2).



**Table of Contents**

**Independent Director Oversight of Nominations:** Under Israeli law, there is no requirement to have an independent nominating committee or the independent directors of a company select (or recommend for selection) director nominees, as is required under NASDAQ Listing Rule 5605(e) for a U.S. domestic issuer. Our board of directors (based on the recommendation of the executive committee thereof) handles this process, as is permitted by our amended articles and the Companies Law. We also need not adopt a formal board resolution or charter addressing the director nominations process and such related matters as may be required under the U.S. federal securities laws, as NASDAQ requires for a U.S. issuer.

**Shareholder Approval:** Pursuant to Israeli law, we seek shareholder approval for all corporate actions requiring such approval under the requirements of the Companies Law, which are different from, or in addition to, the requirements for seeking shareholder approval under NASDAQ Listing Rule 5635. See “Item 6. Directors, Senior Management and Employees—C. Board Practices — Fiduciary Duties of Office Holders” in this annual report for a description of the some of the transactions requiring shareholder approval under the Companies Law.

**Distribution of Annual and Interim Reports:** As opposed to NASDAQ Listing Rule 5250(d), which requires listed issuers to make annual and quarterly reports available to shareholders in one of a number of specific manners, Israeli law does not require us to distribute such reports directly to shareholders, and the generally accepted business practice in Israel is not to distribute such reports to shareholders but to make such reports available through a public website. In addition, we will make our annual report containing audited financial statements available to our shareholders at our offices (in addition to a public website). We reserve the right to limit our mailing of such report to shareholders to an upon-request basis.

**ITEM 16H. MINE SAFETY DISCLOSURE.**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS.**

We have elected to provide financial statements and related information pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements and the related notes required by this Item are included in this annual report beginning on page F-1.

**Index to Consolidated Financial Statements**

	<b>Page</b>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at December 31, 2018 and 2017	F-3
Consolidated Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2018, 2017 and 2016	F-4
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2018, 2017 and 2016	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016	F-6 to F-7
Notes to the Consolidated Financial Statements	F-8 to F-38
<b>Index to Financial Statement Schedule</b>	
Schedule II-Valuation and Qualifying Accounts and Reserves	S-1
87	

**Table of Contents**

**STRATASYS LTD.**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the board of directors and shareholders of Stratasys Ltd.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Stratasys Ltd. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive loss, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and schedule of valuation and qualifying accounts and reserves for each of the three years in the period ended December 31, 2018 appearing under Item 18 (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15(b). Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Table of Contents**

***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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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/ Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

Tel-Aviv, Israel  
March 7, 2019

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

F-2

---

**Table of Contents****STRATASYS LTD.  
CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Balance Sheets**  
(in thousands, except share data)

<b>December 31,</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 393,167	\$ 328,761
Accounts receivable, net	138,146	132,671
Inventories	123,524	115,717
Net investment in sales-type leases	2,658	7,208
Prepaid expenses	6,398	7,696
Other current assets	20,278	22,858
Total current assets	684,171	614,911
<b>Non-current assets</b>		
Net investment in sales-type leases - long-term	1,552	4,439
Property, plant and equipment, net	188,150	199,951
Goodwill	385,849	387,108
Other intangible assets, net	107,274	142,122
Other non-current assets	21,258	31,219
Total non-current assets	704,083	764,839
<b>Total assets</b>	<b>\$ 1,388,254</b>	<b>\$ 1,379,750</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 45,855	\$ 39,849
Current portion of long-term debt	5,143	5,143
Accrued expenses and other current liabilities	39,115	30,041
Accrued compensation and related benefits	31,703	35,356
Deferred revenues	53,965	52,908
Total current liabilities	175,781	163,297
<b>Non-current liabilities</b>		
Long-term debt	22,000	27,143
Deferred tax liabilities	1,662	7,069
Deferred revenues - long-term	18,422	15,200
Other non-current liabilities	27,422	32,899
Total non-current liabilities	69,506	82,311
<b>Total liabilities</b>	<b>\$ 245,287</b>	<b>\$ 245,608</b>
Commitments and contingencies (see note 10)		
<b>Redeemable non-controlling interests</b>	852	1,635
<b>Equity</b>		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousands shares; 53,881 thousands shares and 53,631 thousands shares issued and outstanding at December 31, 2018 and 2017, respectively	146	145
Additional paid-in capital	2,681,048	2,663,274
Accumulated other comprehensive loss	(7,753)	(7,023)
Accumulated deficit	(1,531,326)	(1,523,906)
Equity attributable to Stratasys Ltd.	1,142,115	1,132,490
Non-controlling interests	-	17
Total equity	1,142,115	1,132,507
<b>Total liabilities and equity</b>	<b>\$ 1,388,254</b>	<b>\$ 1,379,750</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Table of Contents****STRATASYS LTD.  
CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Statements of Operations and Comprehensive Loss**  
(in thousands, except share and per share data)

<b>Years Ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Net sales</b>			
Products	\$ 456,504	\$ 474,286	\$ 479,031
Services	206,733	194,076	193,427
	663,237	668,362	672,458
<b>Cost of sales</b>			
Products	203,622	219,020	234,653
Services	134,391	126,565	120,499
	338,013	345,585	355,152
<b>Gross profit</b>	325,224	322,777	317,306
<b>Operating expenses</b>			
Research and development, net	98,964	96,237	97,778
Selling, general and administrative	235,107	257,063	306,241
	334,071	353,300	404,019
<b>Operating loss</b>	(8,847)	(30,523)	(86,713)
<b>Financial income, net</b>	633	1,047	354
<b>Loss before income taxes</b>	(8,214)	(29,476)	(86,359)
Income taxes expense (benefit)	4,736	9,273	(9,446)
Share in profits (losses) of associated companies	1,725	(1,710)	(708)
<b>Net loss</b>	(11,225)	(40,459)	(77,621)
Net loss attributable to non-controlling interests	(261)	(478)	(402)
Net loss attributable to Stratasys Ltd.	\$ (10,964)	\$ (39,981)	\$ (77,219)
<b>Net loss per ordinary share attributable to Stratasys Ltd.</b>			
Basic	\$ (0.22)	\$ (0.75)	\$ (1.48)
Diluted	\$ (0.22)	\$ (0.75)	\$ (1.48)
<b>Weighted average ordinary shares outstanding</b>			
Basic	53,751	52,959	52,330
Diluted	53,751	52,959	52,582
<b>Comprehensive Loss</b>			
Net loss	\$ (11,225)	\$ (40,459)	\$ (77,621)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	227	6,102	(2,788)
Unrealized gains (losses) on derivatives designated as cash flow hedge	(957)	354	83
Other comprehensive income (loss), net of tax	(730)	6,456	(2,705)
Comprehensive loss	(11,955)	(34,003)	(80,326)
Less: Comprehensive loss attributable to non-controlling interests	(261)	(478)	(402)
<b>Comprehensive loss attributable to Stratasys Ltd.</b>	\$ (11,694)	\$ (33,525)	\$ (79,924)

*The accompanying notes are an integral part of these consolidated financial statements.*



Table of Contents**STRATASYS LTD.  
CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Statements of Changes in Equity**  
(in thousands)

Years Ended December 31, 2018, 2017, and 2016

	Ordinary Shares		Additional Paid-In Capital	Retained	Accumulated	Equity attributable to Stratasys Ltd.	Non-controlling Interests	Total Equity
	Number of shares	Par Value		(accumulated deficit)	Other Comprehensive Loss			
<b>Balances, January 1, 2016</b>	52,082	141	2,605,957	(1,406,706)	(10,774)	1,188,618	183	1,188,801
<b>Issuance of shares in connection with stock-based compensation plans</b>	301	1	1,185	-	-	1,186	-	1,186
<b>Stock-based compensation</b>	-	-	20,773	-	-	20,773	-	20,773
<b>Issuance of shares for settlements of obligations in connection with acquisitions and other related items</b>	256	*	5,214	-	-	5,214	-	5,214
<b>Comprehensive loss</b>	-	-	-	(77,219)	(2,705)	(79,924)	(52)	(79,976)
<b>Balance as of December 31, 2016</b>	52,639	142	2,633,129	(1,483,925)	(13,479)	1,135,867	131	1,135,998
<b>Issuance of shares in connection with stock-based compensation plans</b>	743	2	6,557	-	-	6,559	-	6,559
<b>Stock-based compensation</b>	-	-	17,722	-	-	17,722	-	17,722
<b>Issuance of shares for settlements of obligations in connection with acquisitions and other related items</b>	249	1	5,866	-	-	5,867	-	5,867
<b>Divestment of non-controlling interests</b>	-	-	-	-	-	-	(30)	(30)
<b>Comprehensive loss</b>	-	-	-	(39,981)	6,456	(33,525)	(84)	(33,609)
<b>Balance as of December 31, 2017</b>	53,631	145	2,663,274	(1,523,906)	(7,023)	1,132,490	17	1,132,507
<b>Cumulative effect of changes in accounting principles</b>	-	-	-	3,544	-	3,544	-	3,544
<b>Issuance of shares in connection with stock-based compensation plans</b>	250	1	3,023	-	-	3,024	-	3,024
<b>Stock-based compensation</b>	-	-	15,686	-	-	15,686	-	15,686
<b>Purchase of redeemable non-controlling interests</b>	-	-	(935 )	-	-	(935 )	-	(935 )
<b>Divestment of non-controlling interests</b>	-	-	-	-	-	-	26	26
<b>Comprehensive loss</b>	-	-	-	(10,964 )	(730 )	(11,694 )	(43 )	(11,737 )
<b>Balance as of December 31, 2018</b>	53,881	\$ 146	\$ 2,681,048	\$ (1,531,326 )	\$ (7,753 )	\$ 1,142,115	\$ -	\$ 1,142,115

\* Represents an amount less than 0.5 thousand

*The accompanying notes are an integral part of these consolidated financial statements.*

**Table of Contents****STRATASYS LTD.  
CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Statements of Cash Flows**  
(in thousands)

<b>Years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Net loss	\$ (11,225)	\$ (40,459)	\$ (77,621)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Impairment of other long-lived assets	7,260	6,759	24,924
Depreciation and amortization	61,250	66,635	92,877
Stock-based compensation	15,686	17,722	20,773
Foreign currency transaction loss (gain)	5,140	(10,429)	2,147
Deferred income taxes	(3,956)	(2,549)	(10,378)
Non-cash loss (gain) from divestitures	(7,908)	788	-
Share in (profits) losses of associated companies	(1,724)	1,710	708
Other non-cash items	582	2,400	(359)
<b>Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions or divestitures:</b>			
Accounts receivable, net	(8,884)	(7,581)	2,009
Inventories	(16,124)	2,174	642
Net investment in sales-type leases	7,437	12,196	5,646
Other current assets and prepaid expenses	446	1,100	335
Other non-current assets	(1,280)	(802)	933
Accounts payable	6,882	(1,206)	1,969
Other current liabilities	9,183	(1,114)	(6,330)
Deferred revenues	6,203	3,421	3,380
Other non-current liabilities	(5,256)	10,954	259
<b>Net cash provided by operating activities</b>	<b>63,712</b>	<b>61,719</b>	<b>61,914</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(23,361)	(22,308)	(45,125)
Net proceeds from divestitures of subsidiaries and associated companies	41,168	-	-
Investment in unconsolidated entities	(13,015)	(3,568)	(23,064)
Proceeds from sale of plant and property	4,105	-	-
Purchase of intangible assets	(1,449)	(1,540)	(2,002)
Proceeds from maturities of bank deposits	-	-	67,571
Investment in bank deposits	-	-	(67,000)
Other investing activities	(304)	(361)	(457)
<b>Net cash provided by (used in) investing activities</b>	<b>7,144</b>	<b>(27,777)</b>	<b>(70,077)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term debt	-	10,000	26,000
Repayment of long-term debt	(5,143)	(3,714)	-
Payment of obligations in connection with acquisitions	-	(1,476)	(1,386)
Acquisition of redeemable non-controlling interests	(1,500)	-	-
Proceeds from exercise of stock options	3,692	5,888	1,185
<b>Net cash provided by (used in) financing activities</b>	<b>(2,951)</b>	<b>10,698</b>	<b>25,799</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>	<b>(3,530)</b>	<b>4,096</b>	<b>(1,053)</b>
<b>Net change in cash, cash equivalents and restricted cash</b>	<b>64,375</b>	<b>48,736</b>	<b>16,583</b>
<b>Cash, cash equivalents and restricted cash, beginning of year</b>	<b>329,359</b>	<b>280,623</b>	<b>264,040</b>
<b>Cash, cash equivalents and restricted cash, end of year</b>	<b>\$ 393,734</b>	<b>\$ 329,359</b>	<b>\$ 280,623</b>

*The accompanying notes are an integral part of these consolidated financial statements.*



**Table of Contents****STRATASYS LTD.  
CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Statements of Cash Flows**  
(in thousands)

<b>Years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Supplemental disclosure of cash flow information</b>			
Cash paid for income taxes, net of tax refunds	\$ 5,682	\$ 1,247	\$ 5,278
Cash paid for interest	1,675	1,140	-
Transfer of inventory to fixed assets	3,702	4,844	5,085
Transfer of fixed assets to inventory	451	1,188	1,068

*The accompanying notes are an integral part of these consolidated financial statements.*

F-7

---

**Table of Contents**

**STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies**

**a. Nature of Operations**

Stratasys Ltd. (collectively with its subsidiaries, the “Company”) is a global provider of applied additive technology solutions for a broad range of industries. The Company focuses on customers’ business requirements and seeks to create new value for its customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. The Company operates a 3D printing ecosystem of solutions and expertise, comprised of: 3D printers ranging from entry-level desktop 3D printers to systems for rapid prototyping (“RP”) and large production systems for direct digital manufacturing (“DDM”) based on precise fused deposition modeling (“FDM”) and PolyJet technologies; advanced materials for the use with its 3D printers; software with voxel level control; application-based services; on-demand parts; and key partnerships.

The Company has one operating segment, which generates revenues via the sale of its 3D printing systems, related services and consumables and by providing additive manufacturing (“AM”) solutions. The Company operates mainly through offices in Israel, the United States, Germany, Hong Kong and Japan.

**b. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Stratasys Ltd., and its subsidiaries. All intercompany balances and transactions, including profits from intercompany sales not yet realized outside the Company, have been eliminated in consolidation.

***Functional Currency and Foreign Currency Transactions***

A major part of the Company’s operations is carried out by Stratasys Ltd. in Israel and its subsidiaries in the United States. The functional currency of these entities is the U.S. dollar (“dollar” or “\$”). The functional currency of other subsidiaries is generally their local currency. The financial statements of those subsidiaries are included in the consolidated financial statements, based on translation into U.S. dollars. Assets and liabilities accounts are translated at year-end exchange rates, while revenues and expenses accounts are translated at monthly average exchange rates during the year. The remeasurement adjustments of foreign currencies translation are included in the Company’s shareholders’ equity as a component of accumulated other comprehensive loss in the accompanying consolidated financial statements. Gains and losses arising from foreign currency remeasurements of monetary balances denominated in non-functional currencies are reflected in financial income, net in the consolidated statements of operations and comprehensive loss.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates using assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences may have a material impact on the Company’s financial statements. As applicable to these consolidated financial statements, the most significant estimates relate to revenue recognition, inventories measurement, long-lived assets, goodwill, uncertain tax positions and contingent liabilities.

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A hierarchy has been established 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.



**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. The fair value hierarchy categorizes into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

***Cash and Cash Equivalents***

All highly liquid investments, which include short-term bank deposits that are not restricted as to withdrawal or use, with maturities of ninety days or less when acquired, are considered to be cash equivalents.

***Accounts Receivable and Net Investment in Sales-Type Leases***

Accounts receivable and net investment in sales-type leases are presented in the Company's consolidated balance sheets net of allowance for doubtful accounts. The Company carries its investment in sales-type leases based on discounting the minimum lease payments by the interest rate implicit in the lease and less an allowance for doubtful accounts.

On a periodic basis, the Company evaluates the collectability of its accounts receivable and its investment in sales-type leases and establishes an allowance for doubtful accounts based on past write-offs and collections, current credit conditions, the age of the balances and economic factors that may affect a customer's ability to pay. The Company evaluates a number of factors to assess collectability, including an evaluation of the creditworthiness of the specific customer, past due amounts, payment history, and current economic conditions.

Allowance for doubtful accounts due to the Company's accounts receivable amounted to \$1,110 thousand and \$1,160 thousand as of December 31, 2018 and 2017, respectively. Allowance for doubtful accounts due to the Company's investment in sales-type leases amounted to \$1,689 thousand and \$1,575 thousand as of December 31, 2018 and 2017, respectively. Changes in the allowance for doubtful accounts are recognized in selling, general and administrative expenses. Accounts receivable are written-off against the allowance for doubtful accounts when management deems the accounts are no longer collectible.

***Derivative Instruments and Hedge Accounting***

The Company conducts its operations globally and may be exposed to global market risks and to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign currency exchange rates. As part of the Company's risk management strategy, the Company enters into transactions involving foreign currency exchange derivative financial instruments. For its non-hedging transactions, the Company manages its foreign currency exposures on a consolidated basis, which allows the Company to net exposures and take advantage of any natural hedging. The transactions are designed to manage the Company's net exposure to foreign currency exchange rates and to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. Financial markets and currency volatility may limit the Company's ability to hedge these exposures. The Company does not enter into derivative transactions for trading purposes.

The Company recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at their fair value. Derivatives in a gain position are reported in other current assets in the consolidated balance sheets and derivatives in a loss position are recorded in accrued expenses and other current liabilities in the consolidated balance sheets, on a gross basis.

On the date that the Company enters into a derivative contract, it designates the derivative for accounting purposes, as either a hedging instrument which qualifies for hedge accounting or as a non-hedging instrument which does not qualify for hedge accounting. In order to qualify for hedge accounting, the Company formally documents at the inception of each hedging relationship the hedging instrument, the hedged item, the risk management objective and strategy for undertaking each hedging relationship, and the method used to assess hedge effectiveness.





**Table of Contents**

**STRATASYS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For each hedging instrument that hedges the exposure to variability in expected future cash flows and that is designated and effective as a cash flow hedge, the effective portion of the unrealized gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive loss in the Company's shareholders' equity and is reclassified into earnings in the same period and in the same line item in which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in financial income, net. The cash flows associated with these derivatives are reported in the consolidated statements of cash flows consistently with the classification of cash flows from the underlying hedged items that these derivatives are hedging.

For non-hedging instruments, the Company records the changes in fair value of derivative instruments in financial income, net in the consolidated statements of operations and comprehensive loss. The cash flows associated with these derivatives are reported in the consolidated statements of cash flows consistently with the classification of cash flows from the underlying hedged items that these derivatives are hedging. Refer to Note 12 for further information regarding the Company's derivative and hedging activities.

***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined mainly using standard cost, which approximates actual cost, on a first-in, first-out basis. Inventory costs consist of materials, direct labor and overhead. Net realizable value is determined based on estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company periodically assesses inventory for obsolescence and excess balances and reduces the carrying value by an amount equal to the difference between its cost and the net realizable value. The net realizable value is primarily estimated based on future demand forecasts, as well as, historical sales trends, product life cycle status and product development plans. The Company provided inventory write-downs for obsolescence and excess inventories in amounts of \$8.6 million and \$6.3 million as of December 31, 2018 and 2017, respectively.

***Non-Marketable Equity Investments***

The Company's investments in non-marketable equity securities in which it has the ability to exercise significant influence, but does not control through variable interests or voting interests, are accounted for under the equity method of accounting and presented as other non-current assets in the Company's consolidated balance sheets. Under the equity method, the Company recognizes its proportionate share of the comprehensive income or loss of the investee. The Company's share of income and losses from equity method investments is included in share in losses of associated company.

Other non-marketable equity securities without readily determinable fair value in which the Company does not have a controlling interest or significant influence are recorded at their original cost and adjusted for observable price changes for identical or similar instruments less any impairment. These equity securities are presented as other non-current assets in the Company's consolidated balance sheets.

The Company reviews its unconsolidated non-marketable equity investments for potential impairment or other adjustments, which generally involves an analysis of the facts and changes in circumstances influencing the investments. There was no impairment of unconsolidated non-marketable equity investments during the years ended December 31, 2018, 2017 and 2016.

***Property, Plant and Equipment, net***

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, or in the case of leasehold improvements, the shorter of the lease term (including any renewal periods, if appropriate) or the estimated useful life of the asset. Repairs and maintenance are charged to expense as incurred, while betterments and improvements that extend the useful life or add functionality of property, plant and equipment are capitalized.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Depreciation is computed primarily over the following periods:

	<b>Useful Life in Years</b>
Buildings	25 - 40
Machinery and equipment	5 - 10
Buildings improvements	5 - 10
Computer equipment and software	3 - 5
Office equipment, furniture and fixtures	5 - 14

The Company reviews the carrying amounts of property, plant and equipment for potential impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating recoverability, the Company groups assets and liabilities at the lowest level such that the identifiable cash flows relating to the group are largely independent of the cash flows of other assets and liabilities. The Company then compares the carrying amounts of the assets or asset groups with the related estimated undiscounted future cash flows. In the event impairment exists, an impairment charge is recorded at the amount by which the carrying amount of the asset or asset group exceeds the fair value. In addition, the remaining depreciation period for the impaired asset would be reassessed and, if necessary, revised.

***Other Intangible Assets, net***

Intangible assets and their useful lives are as follows:

	<b>Weighted Average Useful Life (in Years)</b>
Developed technology	6
Patents	10
Trade names	9
Customer relationships	7

Definite life intangible assets are amortized using the straight-line method over their estimated period of useful life. Amortization of acquired developed technology is recorded in cost of sales. Amortization of trade names, customer relationships and patents are recorded under selling, general and administrative expenses.

For definite life intangible assets, the Company reviews the carrying amounts for potential impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating recoverability, the Company groups assets and liabilities at the lowest level such that the identifiable cash flows relating to the group are largely independent of the cash flows of other assets and liabilities. The Company then compares the carrying amounts of the asset or assets groups with their respective estimated undiscounted future cash flows. If the definite life intangible asset or assets group are determined to be impaired, an impairment charge is recorded at the amount by which the carrying amount of the asset or assets group exceeds their fair value. Fair value is determined by using an applicable discounted cash flow model. In addition, the remaining amortization period for the impaired asset would be reassessed and, if necessary, revised. During the years ended December 31, 2018, 2017 and 2016, the Company recorded impairment charges of \$2.2, \$2.2 million and \$16.9 million, respectively, related to its definite life intangible assets. Refer to Note 8 for further information.

***Goodwill***

Goodwill reflects the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the business combination date over the fair values of the identifiable net assets acquired. Goodwill is not amortized but rather is tested for impairment annually in the fourth quarter at the reporting unit level, or whenever events or circumstances present an indication of potential impairment which requires an interim goodwill impairment analysis. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Company allocates goodwill to its reporting units based on the reporting unit expected to benefit from the business combination.

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The primary items that generate goodwill include the value of the synergies between the acquired companies and the Company and the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset.

The Company may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company performs a qualitative assessment and concludes that it is more likely than not that the fair value of a reporting unit exceeds its carrying value, goodwill is not considered impaired and the two-step impairment test is not required. However, if the Company concludes otherwise, it is then required to perform a quantitative assessment for goodwill impairment.

Commencing 2017, the Company has early adopted a new guidance which simplifies the test for goodwill impairment. Under the new guidance, the Company performs its quantitative goodwill impairment test by comparing the fair value of its reporting unit with its carrying value. If the reporting unit's carrying value is determined to be greater than its fair value, an impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit's fair value. If the fair value of the reporting unit is determined to be greater than its carrying amount, the applicable goodwill is not impaired and no further testing is required.

The evaluation of goodwill impairment requires the Company to make assumptions about future cash flows of the reporting unit being evaluated that include, among others, growth in revenues, margins realized, level of operating expenses and cost of capital. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. Refer to Note 7 for further information.

***Retirement Plans and Employee Rights Upon Termination***

Under Israeli law, the Company is required to pay a severance payment to its employees in Israel upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company makes ongoing deposits into its Israeli employee pension plans to fund their severance liabilities. For its employees who are employed under the Section 14 of the Severance Pay Law, 1963 ("Section 14"), the Company makes deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employee's rights upon termination. In addition, the related obligations and amounts deposited on behalf of the applicable employees for such obligations are not presented on the Company's consolidated balance sheets, as the amounts funded are not under the control and management of the Company and the Company is legally released from the obligation to pay any severance payments to the employees once the required deposit amounts have been paid.

Severance pay liabilities with respect to for the Company's employees in Israel who are not subject to Section 14, as well as employees who have special contractual arrangements, are provided for in the Company's consolidated financial statements based on the length of time that they work for the Israeli entity and their latest monthly salary. The Company's liabilities for those Israeli employees, in the amounts of \$4.0 million and \$3.9 million as of December 31, 2018 and 2017, respectively, are presented as other non-current liabilities in the Company's consolidated balance sheets. These liabilities are recorded as if it was payable at each balance sheet date. These liabilities are partially funded by the purchase of insurance policies or by the establishment of pension funds with dedicated deposits in the funds. The amounts used to fund these liabilities are included in the Company's consolidated balance sheets under other non-current assets. As of December 31, 2018 and 2017, the Company had \$3.1 million and \$3.0 million, respectively, deposited in these insurance policies and pension funds. These policies are the Company's assets. However, under employment agreements and subject to certain limitations, any policy may be transferred to the ownership of the individual employee for whose benefit the funds were deposited.

In addition, the Company has liabilities for severance payments to its employees in other jurisdictions in accordance with local laws and practices of the countries in which they are employed.

Severance expenses for the years ended December 31, 2018, 2017 and 2016 were \$4.1 million, \$3.1 million and \$3.0 million, respectively.

For its employees in the United States, the Company has a defined contribution retirement plan (the "Plan") under the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code") that covers eligible U.S. employees as defined in the Plan. Participants may elect to contribute both pre-tax or after-tax ("Roth") up to 50% of annual taxable compensation, as defined by the Plan, up to a maximum amount prescribed by the Code. The Company, at its discretion, makes matching contributions equal 4% of the participant's annual compensation. For the years ended December 31, 2018, 2017 and 2016 the Company made 401(k) Plan contributions of approximately \$3.2 million, \$3.7 million and \$3.8 million respectively.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Contingent Liabilities***

The Company is subject to various legal proceedings that arise from time to time in the ordinary course of business. The outcomes of the legal proceedings that are pending as of the date the financial statements are issued are subject to significant uncertainty. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's management evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. Such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that loss would be incurred and the amount of the liability can be reasonably estimated, then the Company would record an accrued expense in the Company's financial statements based on its best estimate. Loss contingencies considered to be remote by management are generally not disclosed unless material. The respective legal fees are expensed as incurred.

***Redeemable Non-controlling Interests***

Non-controlling interests with embedded redemption features, such as put options, whose settlement is not at the Company's discretion, are considered redeemable non-controlling interests. Redeemable non-controlling interests are considered to be temporary equity and are therefore presented as a mezzanine section between liabilities and equity on the Company's consolidated balance sheets. Redeemable non-controlling interests are measured at the greater of the initial carrying amount adjusted for the non-controlling interest's share of comprehensive income or loss or its redemption value. Adjustments of redeemable non-controlling interest to its redemption value are recorded through additional paid-in capital.

***Revenue Recognition***

Effective January 1, 2018, the Company adopted the new accounting standard related to the recognition of revenue in contracts with customers using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Accordingly, results for reporting periods beginning after January 1, 2018 are presented under the new accounting standard, while prior period amounts have not been adjusted and continue to be reported in accordance with the previous revenue recognition guidance. The impacts to adjust the results for 2018 to the previous revenue recognition standard were not material. The adoption of the new revenue recognition standard, resulting in an increase of \$1.4 million in retained earnings with a corresponding effect on other non-current assets for the cumulative-effect adjustments recorded due to the deferral and amortization of incremental costs incurred to obtain a contract as of the date of adoption.

The Company derives revenues from sales of additive manufacturing systems, consumables and services. The Company sells its products directly through its sales force and independent sales agents and indirectly through authorized resellers.

The Company determines revenue recognition through the following steps:

Identification of the contract, or contracts, with a customer

Identification of the performance obligations in the contract

Determination of the transaction price

Allocation of the transaction price to the performance obligations in the contract

Recognition of revenue when, or as, the Company satisfies a performance obligation

Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing services to the end customer or to the reseller. The amount of consideration is primarily at fixed price at the contract inception. Consideration from Shipping and handling are recorded on a gross basis within product revenue. Revenues are recorded net of any taxes assessed by various government entities, such as sales and value-added taxes which are subsequently remitted to governmental authorities.

**Table of Contents**

**STRATASYS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Revenue from products, which consist of systems and consumables, is recognized when the customer has obtained control of the goods, generally at a point in time upon shipment or once delivery and risk of loss has transferred to the customer. The Company recognizes revenue on sales to resellers when the reseller has economic substance apart from the Company and the reseller is considered the principal for the transaction with the end-user customer. Service revenue derives from service type warranty and from the Company's direct manufacturing parts services. Revenue from service type warranty under a contract is recognized ratably on a straight-line basis over the time of the service, as control is transferred over time or as services are performed if not under contract. For direct manufacturing parts, control is transferred usually at a point in time, upon shipment of the parts.

The Company enters into contracts with customers that can include various combinations of products and services which are distinct and accounted for as separate performance obligations. Products or services that are promised to a customer can be considered distinct if both of the following criteria are met: (i) the customer can benefit from the products or services either on its own or together with other readily available resources, and (ii) the Company's promise to transfer the products or services to the customer is separately identifiable from other promises in the contract.

The transaction price is allocated to each distinct performance obligations 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.

In assessing collectability as part of the revenue recognition process, the Company considers a number of factors in the evaluation of the creditworthiness of the customer, including past due amounts, payment history and financial condition. In some cases where collectability is not assured, payment terms are set partially or entirely as prepayment or customers may be required to furnish letters of credit.

See Note 3 for additional information related to disaggregation of revenue and other.

***Shipping and handling costs***

Shipping and handling costs are classified as products cost of revenues.

***Advertising***

Advertising costs are expensed as incurred and were approximately \$15.9 million, \$14.2 million and \$19.4 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

***Research and Development Costs***

Research and development costs consist primarily of employee compensation expenses, materials, laboratory supplies, costs for related software and costs for facilities and equipment. Expenditures for research and development are expensed as incurred. Government reimbursements and other participations for development of approved projects are recognized as a reduction of expenses as the related costs are incurred. The Company is not required to pay royalties on sales of products developed using its government funding.

***Income Taxes***

The Company and its subsidiaries are subject to income taxes in the jurisdictions in which they operate. The Company's provision for income taxes is based on income tax rates in the tax jurisdictions where it operates, permanent differences between financial reporting and tax reporting, and available credits and incentives.

Deferred taxes are determined utilizing the "asset and liability" method based on the estimated future tax effects of temporary differences between the carrying amount and tax bases of assets and liabilities under the applicable tax laws, and on effective tax rates in effect when the deferred taxes are expected to be settled or realized. Deferred taxes for each jurisdiction are presented as a non-current net asset or liability, net of any valuation allowances.



**Table of Contents**

**STRATASYS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Deferred taxes have not been provided on the following items:

Taxes that would apply in the event of disposal of investments in first-tier foreign subsidiaries, as it is generally the Company's intention to  
1) hold these investments, not to realize them.

Dividends distributable from the income of foreign companies as the Company does not expect these companies to distribute dividends in the foreseeable future. If these dividends were to be paid, the Company would have to pay additional taxes at a rate of up to 23% on the  
2) distribution, and the amount would be recorded as an income tax expense in the period the dividend is declared.

Amounts of tax-exempt income generated from the Company's current Approved and Beneficiary Enterprises (see note 9c), as the Company intends to permanently reinvest these profits and does not intend to distribute dividends from such income. If these dividends were to be paid, the Company would have to pay additional taxes at a rate up to 10% on the distribution, and the amount would be recorded as an income tax  
3) expense in the period the dividend is declared.

***Valuation Allowances***

Valuation allowances are provided unless it is more likely than not that all or a portion of the deferred tax asset will be realized. In the determination of the appropriate valuation allowances, the Company considers future reversals of existing taxable temporary differences, the most recent projections of future business results, prior earnings history, carryback and carry forward and prudent tax strategies that may enhance the likelihood of realization of a deferred tax asset. Assessments for the realization of deferred tax assets made at a given balance sheet date are subject to change in the future, particularly if earnings of a subsidiary are significantly higher or lower than expected, or if the Company takes operational or tax positions that could impact the future taxable earnings of a subsidiary.

***Uncertain Tax Positions***

The Company takes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the position will be sustained on audit, including resolution of related appeals or litigation processes, if any.

The second step is performed only if the tax position meets the more-likely-than-not recognition threshold and is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company reevaluates these tax positions quarterly and makes adjustments as required. The liabilities relating to uncertain tax positions are classified as current in the consolidated balance sheets to the extent the Company anticipates making payments within one year. The Company classifies interest and penalties recognized in the financial statements relating to uncertain tax positions under the provision for income taxes.

The Company presents unrecognized tax benefits as a reduction to deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward that are available, under the tax law of the applicable jurisdiction, to offset any additional income taxes that would result from the settlement of a tax position.

***Stock-Based Compensation***

The Company measures and recognizes compensation expense for its equity classified stock-based awards, including stock-based option awards, restricted stock units ("RSUs") and performance stock units ("PSUs") under the Stratasy Ltd. 2012 Omnibus Equity Incentive Plan (the "2012 Plan") based on estimated fair values on the grant date.

The Company calculates the fair value of stock-based option awards on the date of grant using the Black-Scholes option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected share price volatility and the expected option term. The computation of expected volatility is based on historical volatility of the Company's shares. The expected option term is calculated using the simplified method, as the Company concludes that its historical share option exercise experience does not provide a reasonable basis to estimate its expected option term. The interest rate for periods within the expected term of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company's expected dividend rate is zero since the Company does not currently pay cash dividends on its shares and does not anticipate doing so in the foreseeable future.





**Table of Contents**

**STRATASYS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Each of the above factors requires the Company to use judgment and make estimates in determining the percentages and time periods used for the calculation. If the Company were to use different percentages or time periods, the fair value of stock-based option awards could be different. The fair values of the Company's RSUs and PSUs are measured based on the fair value of the Company's ordinary shares on the date of grant.

The Company recognizes compensation expenses for its stock-based option awards and RSUs on a straight-line basis over the requisite service period (primarily a four-year period). The Company recognizes compensation expenses for its PSUs based on the probability that the performance metrics will be achieved over the vesting period. At each reporting period the Company evaluates the probability that its PSUs will be earned and adjust its previously recognized compensation expense as necessary. If the achievement of the respective performance metrics is not probable or the respective performance are not met the Company reverses its previously recognized compensation expense.

Effective January 1, 2017, the Company adopted an ASU which simplifies certain aspects of the accounting for share-based payments, including, among other items, accounting for income taxes and allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, rather than to account for them based on an estimate of expected forfeitures. The total cumulative-effect adjustment to retained earnings as of January 1, 2017 was immaterial. Prior periods have not been restated.

***Restructuring***

The Company may incur restructuring charges in connection with certain initiatives designed to adjust the Company's cost and operating structure, improve efficiencies across the Company and to better align with the Company's long-term strategy and overall market conditions. Restructuring charges include employee severance and associated termination costs related to the reduction of workforce, costs related to facilities closures, impairment charges of the respective long-lived assets and contract termination costs. Restructuring charges for employees' termination costs are recognized when the required actions to execute the restructuring initiative were performed and the initiatives are probable and costs are estimable. Restructuring charges for facilities and contract terminations are recognized when the Company ceased using the rights conveyed by the contract. Significant judgments and estimates are involved in estimating the impact of restructuring plans on the Company's consolidated financial statements. Actual results may differ from these estimates.

***Earnings per Share***

Basic earnings per share is computed by dividing net income (loss) attributable to ordinary shareholders of Stratasys Ltd., including adjustment of redeemable non-controlling interest to its redemption amount, by the weighted average number of ordinary shares (including fully vested RSUs and PSUs) outstanding for the reporting periods.

In computing the Company's diluted earnings per share for 2016, the numerator used in the basic earnings per share computation was adjusted for the dilutive effect of the Company's deferred payments liability revaluation to its fair value, as it would have been settled in shares that would result from the assumed issuance of potential ordinary shares.

The denominator for diluted earnings per share is a computation of the weighted-average number of ordinary shares and the potential dilutive ordinary shares outstanding during the period. Potential dilutive shares outstanding include the dilutive effect of in-the-money options and unvested RSUs using the treasury stock method. PSUs are considered contingently issuable shares for diluted earnings per share purposes and the dilutive impact, if any, is not included in the weighted average shares until the performance conditions are met.

The computation of the Company's denominator for diluted earnings per share for 2016 also included the potential dilutive shares resulting from presumed share settlement of the Company's deferred payments liability and other retention settlements in connection with certain prior acquisitions.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables, investment in sales-type leases and foreign currency exchange forward contracts. Most of the Company's cash and cash equivalents are invested in U.S. dollar instruments with major banks in the U.S., Israel and Europe. Management believes that the credit risk with respect to the financial institutions that hold the Company's cash and cash equivalents is low.

Concentration of credit risk with respect to accounts receivable is limited due to the relatively large number of customers and their wide geographic distribution. In addition, the Company seeks to mitigate its credit exposures to its accounts receivable by credit limits, credit insurance, ongoing credit evaluation and account monitoring procedures.

F-16

---

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Reclassifications***

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no net effect on previously reported results of operations.

***Recently issued accounting pronouncements******Accounting Pronouncements Adopted in 2018***

In February 2017, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") which applies to the derecognition of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, unless other specific guidance applies. The new ASU does not apply to the derecognition of businesses or financial assets, or to contracts with customers. According to the new ASU, when an entity transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest in the respective nonfinancial asset, the entity will measure the retained interest at fair value. This will result in gain or loss recognition upon the sale of a controlling interest in a nonfinancial asset. As a result of these changes, the same accounting treatment will be applied to a transfer of a nonfinancial asset in exchange for the non-controlling ownership interest in another entity or other consideration. Previous guidance generally prohibited gain recognition on the retained interest. The Company adopted this guidance on January 1, 2018, which did not impact its consolidated financial position or net income for the current period.

In November 2016, the FASB issued an ASU which requires entities to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this guidance in the first quarter of 2018 utilizing the retrospective transition method. As a result of the adoption of this ASU the Company adjusted the consolidated statement of cash flows for 2017 and 2016.

In October 2016, the FASB issued an ASU which eliminates the exception for an intra-entity transfer of an asset other than inventory. This ASU requires that the income tax consequences of an intra-entity asset transfer other than inventory are recognized at the time of the transfer, rather than when the transferred asset is sold to a third party or otherwise recovered through use. The Company adopted this guidance on January 1, 2018, utilizing the modified retrospective method, resulting in an increase of \$2.1 million in retained earnings with a corresponding effect on deferred taxes balances for the cumulative-effect adjustments as of the date of adoption.

In January 2016, the FASB issued an ASU which effects changes to the current measurement model that primarily affect all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting), financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new ASU, equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) with readily determinable fair values will generally be measured at fair value through earnings. Equity investments that do not have readily determinable fair values may be measured at fair value or at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer. The Company adopted this guidance on January 1, 2018, which has not impacted its consolidated financial position or results of operations for the current period. For further details, please refer to *Non-Marketable Equity Investments* above.

In May 2014, the FASB issued a new comprehensive revenue recognition guidance on revenue from contracts with customers, as well as certain related amendments ("the Standard"), which superseded the previous revenue recognition guidance. The Company adopted the Standard using the modified retrospective approach on January 1, 2018 using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. For further details, please refer to *Revenue Recognition* above.

***Recently Issued Accounting Pronouncements Not Yet Adopted***

In June 2018, the FASB issued an ASU which substantially aligns the measurement and classification guidance for share-based payments to non-employees with the guidance for share-based payments to employees. The ASU also clarifies that any share-based payment issued to a customer should be evaluated the new revenue recognition standard. The new The ASU requires a modified retrospective transition approach. The guidance is effective for the interim and annual periods beginning after December 15, 2018. The Company expects to adopt this guidance effective January 1, 2019 and do not expect it to have a material impact on its consolidated financial statements.



**Table of Contents**

**STRATASYS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In August 2017, the FASB issued an ASU which simplifies the designation and measurement requirements of hedge accounting in certain situations and allows companies to better align their hedge accounting with their risk management activities. The ASU also eases certain hedge effectiveness assessment requirements, expands the eligibility of hedging strategies that may qualify for hedge accounting and modifies certain presentation and disclosure requirements. The new guidance is effective for fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. The Company expects to adopt this guidance effective January 1, 2019 and do not expect it to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued an ASU which supersedes the existing impairment model for most financial assets to a current expected credit loss model. The new guidance requires an entity to recognize an impairment allowance equal to its current estimate of all contractual cash flows the entity does not expect to collect. The ASU also requires that credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new guidance on its consolidated financial statements.

In February 2016, the FASB issued an ASU which supersedes the current lease accounting guidance ("the new lease accounting guidance"). Under the new lease accounting guidance, lessees will be required to recognize a right-of-use asset and a lease liability for all leases, other than leases that meet the definition of a short-term lease. The liability and the right-of-use asset arising from the lease will be measured as the present value of the lease payments. In addition, enhanced disclosures will also be required to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leases and to increase transparency and comparability among companies. Since February 2016 to December 2018, the FASB issued several amendments to the new lease accounting guidance to provide further clarifications, practical expedients as well as implementation and transition guidance. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, using a modified retrospective transition approach. Early adoption was permitted. The Company has applied certain practical expedients, including to apply the new lease accounting guidance on the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented, without adjusting the comparative periods. In addition, the Company expects to elect practical expedients which allow the Company to carryforward its historical lease classification, its assessment on whether a contract contains a lease and its initial direct costs for any leases that exist prior to adoption of the new lease accounting guidance, as well as the use of hindsight in determining its lease terms.

The Company has performed a comprehensive assessment of the impact of the adoption of new lease accounting guidance, including reviewing its existing lease contracts, implementing a designated IT solution, assessing the impact to its business processes and implementation of internal controls over financial reporting and related disclosure requirements. As of the adoption date, the Company expects to recognize a right-of-use assets and corresponding lease liabilities of ranging from \$24 million to \$28 million, with no material impact to its Consolidated Statements of Operations and Comprehensive Loss.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 2. Divestments and Investments***LPW Technology Divestment*

On October 22, 2018, the Company sold its minority equity interests (approximately 40%) in LPW Technology for total consideration of \$33.6 million, of which \$30.3 million was paid upon closing. The Company recognized a net gain of \$13.5 million which was recorded in the consolidated Statements of Operations and Comprehensive Loss under share in profits (losses) of associated companies. The following table presents the summarized financial data of LPW:

**Summarized Financial Statements Data**

	<b>October 22, 2018</b> (U.S. \$ in thousands)	<b>December 31, 2017</b>
Current assets	\$ 10,682	\$ 18,512
Non-current assets	16,571	6,257
Total assets	<b>\$ 27,253</b>	<b>\$ 24,769</b>
Current liabilities	\$ 7,600	\$ 5,751
Non-current liabilities	4,930	1,401
Total liabilities	<b>\$ 12,530</b>	<b>\$ 7,152</b>

The net loss of LPW for the respective periods in which the Company accounted for its investment in LPW under the equity method of accounting -- during 2018, 2017 and 2016 -- was \$4.6 million, \$1.8 million and \$0.5 million, respectively.

*Solidscape Divestment*

During the third quarter of 2018, the Company sold Solidscape, a wholly-owned subsidiary focused on SCP, ink-jetting technology to produce wax-like patterns for lost-wax casting. As a result of this divestiture, the Company recognized a gain of \$7.0 million, net of transaction costs in the consolidated Statements of Operations and Comprehensive Loss under selling, general and administrative expenses.

*Investment in Evolve*

During 2018, the Company, jointly with certain employees and one of the Company's board members formed an entity for one of its research and development projects ("Evolve"), which received subsequent investments from certain additional strategic investors. The Company does not consolidate the results of operations of Evolve, commencing March 2018. As a result of this transaction, the Company recorded a \$1.6 million loss included in its operating expenses. In addition, since Evolve is not considered a business, the Company recorded a \$5.0 million loss related to the write-off of Evolve's in-process research and development project, which is included in share in profits (losses) of associated companies, in its consolidated financial statements for the year ended December 31, 2018.

During 2018, the Company invested \$5.2 million in two entities which are accounted for under the equity method of accounting. The following table presents the summarized financial data of the Company's unconsolidated affiliates as of December 31, 2018, in which it utilized the equity method of accounting:

	<b>December 31, 2018</b> (U.S. \$ in thousands)
<b>Summarized Financial Statements Data</b>	
Current assets	\$ 30,182
Non-current assets	5,337
Total assets	<b>35,519</b>
Current liabilities	3,434
Non-current liabilities	28
Total liabilities	<b>3,462</b>
Net income (loss) for the year ended	<b>\$ (11,306)</b>

\*The Company's unconsolidated affiliates did not recognize any revenues for the year ended December 31, 2018.

F-19

---

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 3. Revenues****Disaggregation of Revenues**

The following table present the Company's revenues disaggregated by geographical region (based on the Company's customers location) and revenue type for the years ended December 31, 2018, 2017 and 2016:

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(U.S. \$ in thousands)		
<b>Americas</b>			
<b>Products</b>	\$ 251,589	263,212	\$ 257,547
<b>Service</b>	158,152	150,114	153,989
<b>Total Americas</b>	<b>409,741</b>	<b>413,326</b>	<b>411,536</b>
<b>EMEA</b>			
<b>Products</b>	119,151	123,616	117,074
<b>Service</b>	28,011	24,663	20,850
<b>Total EMEA</b>	<b>147,162</b>	<b>148,279</b>	<b>137,924</b>
<b>Asia Pacific</b>			
<b>Products</b>	85,764	87,458	104,410
<b>Service</b>	20,570	19,299	18,588
<b>Total Asia Pacific</b>	<b>106,334</b>	<b>106,757</b>	<b>122,998</b>
<b>Total Revenues</b>	<b>\$ 663,237</b>	<b>\$ 668,362</b>	<b>\$ 672,458</b>

The following table present the Company's revenues disaggregated based on the timing of revenue recognize for the years ended December 31, 2018, 2017 and 2016:

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Revenues recognized in point in time from:</b>			
<b>Products</b>	\$ 456,504	\$ 474,286	\$ 479,031
<b>Services</b>	130,973	120,531	120,603
<b>Total revenues recognized in point in time</b>	<b>587,477</b>	<b>594,817</b>	<b>599,634</b>
<b>Revenues recognized over time from:</b>			
<b>Services</b>	75,760	73,545	72,824
<b>Total revenues recognized over time</b>	<b>75,760</b>	<b>73,545</b>	<b>72,824</b>
<b>Total Revenues</b>	<b>\$ 663,237</b>	<b>\$ 668,362</b>	<b>\$ 672,458</b>

F-20



**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Contract Assets and Contract Liabilities**

Contract assets are recorded when the Company's right to consideration is conditional on constraints other than the passage of time. The Company had no material contract assets as of December 31, 2018.

Contract liabilities include advance payments and billings in excess of revenue recognized, which are primarily related to advanced billings for service type warranty. Contract liabilities are presented under deferred revenues. The Company's deferred revenues as of December 31, 2018 and 2017 were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>U.S. \$ in thousands</b>	
Deferred revenue*	72,387	68,108

\*Includes \$18.4 million and \$15.2 million under long term deferred revenue in the Company's consolidated balance sheets as of December 31, 2018 and December 31, 2017, respectively.

Revenue recognized in 2018 that was included in deferred revenue balance as of January 1, 2018 was \$49.9 million.

**Remaining Performance Obligations**

Remaining Performance Obligations ("RPO") represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of December 31, 2018 the total RPO amounted to \$93.9 million. The Company expects to recognize \$75.4 million of this RPO during the next 12 months, \$12.5 million recognized over the subsequent 12 months and the remainder recognized thereafter.

**Incremental Costs of Obtaining a Contract**

Sales commissions earned mainly by the Company's sales agents are considered incremental costs of obtaining a contract with a customer as the Company expects the benefit of those commissions to be longer than one year. The majority of the sales commissions are not subject to capitalization as the commission expense is recognized as the related revenue is recognized. Sales commissions for initial contracts related to the service type warranty are deferred and then amortized on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. The Company determined the period of benefit by taking into consideration customer contracts including renewals, the technology and other factors. Amortization expense is included in selling, general and administrative expenses in the consolidated statements of operations. The Company recorded the cumulative effect of deferred commission as an adjustment to the opening balance of retained earnings in an amount of \$1.4 million. As of December 31, 2018, the deferred commission amounted to \$3.1 million.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 4. Fair Value Measurement**

The following tables summarize the Company's financial assets and liabilities that are carried at fair value on a recurring basis, on its consolidated balance sheets:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>(U.S. \$ in thousands)</b>	
<b>Assets:</b>		
Foreign exchange forward contracts not designated as hedging instruments	\$ 374	\$ 90
Foreign exchange forward contracts designated as hedging instruments	-	263
<b>Liabilities:</b>		
Foreign exchange forward contracts not designated as hedging instruments	(196)	(921)
Foreign exchange forward contracts designated as hedging instruments	(628)	-
	<b>\$ (450)</b>	<b>\$ (568)</b>

The Company's foreign exchange forward contracts are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs, including interest rate curves and both forward and spot prices for currencies (Level 2 inputs).

Other financial instruments consist mainly of cash and cash equivalents, current and non-current receivables, net investment in sales-type leases, bank loan, accounts payable and other current liabilities. The fair value of these financial instruments approximates their carrying values.

**Note 5. Inventories**

Inventories consisted of the following:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>(U.S. \$ in thousands)</b>	
Finished goods	\$ 61,391	\$ 63,234
Work-in-process	2,616	2,271
Raw materials	59,517	50,212
	<b>\$ 123,524</b>	<b>\$ 115,717</b>

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 6. Property, Plant and Equipment, Net**

Property, plant and equipment, net consisted of the following:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	(U.S. \$ in thousands)	
Machinery and equipment	\$ 134,708	\$ 133,656
Buildings and improvements	139,666	131,993
Computer equipment and software	49,991	48,237
Office equipment, furniture and fixtures	17,616	17,893
Land	19,111	19,234
	361,092	351,013
Accumulated depreciation	(173,437)	(155,147)
	187,655	195,866
Construction work in progress	495	4,085
	\$ 188,150	\$ 199,951

Depreciation expenses were \$28.9 million, \$31.6 million and \$33.8 million in the years ended December 31, 2018, 2017 and 2016, respectively.

**Note 7. Goodwill**

Changes in the carrying amount of the Company's goodwill for the years ended December 31, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	(U.S. \$ in millions)	
Balance at January 1,	\$ 387.1	\$ 385.6
Currency translation adjustments and disposition	(1.3)	1.5
Balance at December 31,	\$ 385.8	\$ 387.1

**Goodwill impairment assessment for the year ended December 31, 2018**

The Company performed a quantitative assessment for goodwill impairment for its Stratasys-Objet reporting unit and concluded that the fair value of Stratasys-Objet reporting unit exceeded its carrying amount by approximately 8%, with a carrying amount of goodwill assigned to this reporting unit in the amount of \$386 million.

When evaluating the fair value of Stratasys-Objet reporting unit under the income approach, the Company used a discounted cash flow model which utilized Level 3 measures that represent unobservable inputs. Key assumptions used to determine the estimated fair value include: (a) internal cash flows forecasts for 5 years following the assessment date, including expected revenue growth, costs to produce, operating profit margins and estimated capital needs; (b) an estimated terminal value using a terminal year long-term future growth rate of 3.1% determined based on the growth prospects of the reporting unit; and (c) a discount rate of 14.0% which reflects the weighted-average cost of capital adjusted for the relevant risk associated with the Stratasys-Objet reporting unit's operations and the uncertainty inherent in the Company's internally developed forecasts.

In order to assess the reasonableness of its cash flow projections used for its goodwill impairment analysis, the Company compared the aggregate fair value of its reporting units to its market capitalization and calculated the implied control premium. The Company calculated its market capitalization using an average price of its shares, as it believes that it is more indicative to its fair value than using the December 31, 2018 price of its shares, due to the volatility in the stock markets during December 2018 and the subsequent significant positive correction. The Company believes that its fair value assessment is reasonably supported by its calculated market capitalization.

Actual results may differ from those assumed in the Company's valuation method. It is reasonably possible that the Company's assumptions described above could change in future periods. If any of these were to vary materially from the Company's plans, it may record impairment of goodwill allocated to this reporting unit in the future. A hypothetical decrease in the growth rate of 1% or an increase of 1% to the discount rate would have reduced the fair value of Stratasys-Objet reporting unit by approximately \$48 million and \$80 million, respectively.

Based on the Company's assessment as of December 31, 2018, no goodwill was determined to be impaired.

F-23

---

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Determining the fair value of the Stratasys-Objet reporting unit requires significant judgment, including judgments about the appropriate discount rates, terminal growth rates, weighted average costs of capital and the amount and timing of projected future cash flows. The Company will continue to monitor the fair value of its Stratasys-Objet reporting unit to determine whether events and changes in circumstances such as further deterioration in the business climate or operating results, significant decline in the Company's share price, changes in management's business strategy or downward changes of the Company's cash flows projections, warrant further interim impairment testing.

**Goodwill impairment assessments for the year ended December 31, 2017 and 2016**

During the fourth quarter of 2017, the Company performed a quantitative assessment for goodwill impairment for its Stratasys-Objet reporting unit. Following its quantitative assessment, the Company concluded that the fair value of Stratasys-Objet reporting unit exceeded its carrying amount by approximately 7%, with a carrying amount of goodwill assigned to this reporting unit in the amount of \$387 million.

During the fourth quarter of 2016, the Company performed a quantitative assessment for goodwill impairment for its Stratasys-Objet reporting unit. Following its quantitative assessment, the Company concluded that the fair value of Stratasys-Objet reporting unit exceeded its carrying amount by approximately 5%, with a carrying amount of goodwill assigned to this reporting unit in the amount of \$386 million.

Based on the Company's assessment as of December 31, 2017 and 2016, no goodwill was determined to be impaired.

**Note 8. Other Intangible Assets, Net**

Other intangible assets consisted of the following:

	December 31, 2018			December 31, 2017		
	Carrying Amount, Net of Impairment	Accumulated Amortization	Net Book Value	Carrying Amount, Net of Impairment	Accumulated Amortization	Net Book Value
	<b>U.S. \$ in thousands</b>					
Developed technology	\$ 299,100	\$ (236,375)	\$ 62,725	\$ 304,601	\$ (220,420)	\$ 84,181
Patents	10,127	(5,752 )	4,375	19,708	(14,279 )	5,429
Trademarks and trade names	26,212	(19,067 )	7,145	27,248	(18,245 )	9,003
Customer relationships	102,984	(70,353 )	32,631	106,203	(63,435 )	42,768
Capitalized software development costs	19,540	(19,142 )	398	19,541	(18,800 )	741
	<b>\$ 457,963</b>	<b>\$ (350,689)</b>	<b>\$ 107,274</b>	<b>\$ 477,301</b>	<b>\$ (335,179)</b>	<b>\$ 142,122</b>

*Amortization expense*

Amortization expense relating to intangible assets for the years ended December 31, 2018, 2017 and 2016, was approximately \$32.4 million, \$35.0 million and \$59.0 million, respectively. The decrease in amortization expense in 2017 was primarily due to change in the estimated useful lives of certain intangibles assets, which reduced the Company's amortization expense by \$20.5 million and resulted in a decrease of \$18.3 million in the Company's net loss and a decrease of \$0.35 in the Company's basic and diluted loss per share.

The decrease in the Company's other intangible assets carrying amount, net of impairment and the corresponding accumulated amortization, as of December 31, 2018 resulted from Solidscape divestment, which is described in Note 2.

**Table of Contents**

**STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2018, estimated future amortization expense relating to definite life intangible assets for each of the next five years and thereafter were as follows:

<b>Year ending December 31,</b>	<b>Estimated amortization expense</b>
2019	(U.S. \$ in thousands) \$ 29,274
2020	28,934
2021	28,775
2022	7,791
2023	8,106
Thereafter	4,394
Total	\$ 107,274

During 2018, 2017 and 2016, the Company recorded impairment charges of \$2.2 million, \$2.2 million and \$17.9 million, respectively, related to certain of its intangible assets.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 9. Income Taxes****a. Deferred Tax Assets and Liabilities**

The components of the Company's deferred tax assets and liabilities as of December 31, 2018 and 2017 were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	(U.S. \$ in thousands)	
<b>Deferred tax assets</b>		
Tax losses carry forwards	\$ 111,196	\$ 114,107
Inventory related	2,603	2,584
Intangibles assets	23,434	23,143
Provision for employee related obligations	1,169	1,463
Stock-based compensation expense	5,565	4,887
Deferred revenue	2,547	2,036
Property, plant and equipment	1,171	924
Allowance for doubtful accounts	609	646
Foreign currency losses	364	421
Research and development credit carry forwards	13,520	11,288
Other items	2,033	1,383
Gross deferred tax assets	164,211	162,882
Valuation allowance	(152,659)	(152,062)
Total deferred tax assets	\$ 11,552	\$ 10,820
<b>Deferred tax liabilities</b>		
Intangibles assets	\$ (9,140 )	\$ (13,658 )
Property, plant and equipment	(2,736)	(3,581)
Total deferred tax liabilities	\$ (11,876 )	\$ (17,239 )
Net deferred tax liabilities	\$ (324)	\$ (6,419)

The Company's deferred tax assets and liabilities are classified in the consolidated balance sheets as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	(U.S. \$ in thousands)	
Deferred tax assets (under "Other non-current assets")	\$ 1,338	\$ 650
Deferred tax liabilities	1,662	7,069
Net deferred tax liabilities	\$ (324 )	\$ (6,419)

F-26

**Table of Contents**

**STRATASYS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2018 and 2017 the Company had tax net operating losses carry-forward of approximately \$479 million and \$486 million, respectively, related to its U.S. subsidiaries. The tax net operating losses carry-forward resulted in deferred tax assets of approximately \$112 million and \$114 million, as of December 31, 2018 and 2017, respectively. As a result of losses incurred by its U.S. subsidiaries in the last few years, and since the near-term realization of these assets is uncertain, the Company provided a full valuation allowance for its deferred tax assets related to its U.S. subsidiaries that are not expected to be realized.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considered all available evidence, including past operating results, the most recent projections for taxable income, and prudent and feasible tax planning strategies. The Company reassess its valuation allowance periodically and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

Included in the net deferred tax liability are net operating loss and credit carryovers of \$128.7 million which expire in years ending from December 31, 2022 through December 31, 2038, with some losses expiring indefinitely, as discussed below.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was enacted into law. The new legislation represents fundamental and dramatic modifications to the U.S. tax system. The Act contained several key tax provisions that impacted the Company's U.S. subsidiaries, including the reduction of the maximum U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Other significant changes under the Act included, among others, a one-time repatriation tax on accumulated foreign earnings, a limitation of net operating loss deduction to 80% of taxable income, and indefinite carryover of post-2017 net operating losses. The Act also repealed the corporate alternative minimum tax for tax years beginning after December 31, 2017. Losses generated prior to January 1, 2018 will still be subject to the 20-year carryforward limitation and the alternative minimum tax. Other impacts due to the Act included the repeal of the domestic manufacturing deduction, modification of taxation of controlled foreign corporations, a base erosion anti-abuse tax, modification of interest expense limitation rules, modification of limitation on deductibility of excessive executive compensation, and taxation of global intangible low-taxed income.

U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. In 2017, the Company revalued its valuation allowance and deferred tax assets at the statutory 21% rate that is in effect in 2018 and forward. The provisional impact of this rate change was recorded in the fourth quarter of 2017 and there was a reduction of \$65.6 million in the valuation allowance, offset by a reduction of \$65.6 million in the deferred tax assets.

The Act introduced new intangible income rules, Global Intangible Low-Taxed Income (GILTI) and Foreign Derived Intangible Income (FDII). The Company has analyzed the impact of GILTI/FDII and determined that no impact can be recorded due to the U.S. subsidiaries' net operating losses. Thus, the Company cannot elect to include these amounts in the measurement of its deferred taxes under U.S. GAAP.

The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) in 2017 which provided guidance on the accounting for the tax effects of the Act. In accordance with this guidance, any material adjustments recorded to the provisional amounts must be disclosed in a 2018 reporting period by the fourth quarter of 2018. The Company completed its assessment with no material adjustments made to the provisional amounts during 2018.

The Company believes that all future profits of its subsidiaries will be indefinitely reinvested or that there is no expectation to distribute any taxable dividends from these subsidiaries. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is estimated as an immaterial amount.



**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****b. Provision for Income Taxes**

Loss before income taxes for the years ended December 31, was as follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(U.S. \$ in thousands)		
Domestic	\$ (17,848)	\$ (98 )	\$ (11,783)
Foreign	9,634	(29,378)	(74,576)
	\$ (8,214 )	\$ (29,476)	\$ (86,359)

The components of income taxes for the years ended December 31, were as follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(U.S. \$ in thousands)		
<b>Current</b>			
Domestic	\$ (722 )	\$ 10,574	\$ 6,242
Foreign	9,414	1,248	(5,310 )
	8,692	11,822	932
<b>Deferred</b>			
Domestic	(3,169)	(4,497 )	(9,851 )
Foreign	(787 )	1,948	(527 )
	(3,956)	(2,549 )	(10,378)
Total income taxes	\$ 4,736	\$ 9,273	\$ (9,446 )

A reconciliation of the statutory income tax rate and the effective tax rate for the years ended December 31, is set forth below:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Statutory tax rate	23.0%	24.0%	25.0%
Approved and Beneficiary Enterprises benefits	16.0	15.7	7.0
US Tax Act enactment	-	(222.5)	-
Stock compensation expense	(24.0)	(5.3)	(2.4)
Tax contingencies	(38.4)	(30.8)	(4.7)
Non-deductible acquisition expenses	(2.3)	(0.6)	(0.2)
Earning taxed under foreign law	(21.6)	43.3	34.4
Valuation Allowance	6.4	144.4	(57.0)
Changes to the prior year's tax assessment	(15.3)	(1.2)	7.9
Other	(1.4 )	1.5	0.9
Effective income tax rate	(57.6)%	(31.5 )%	10.9 %

For the year ended December 31, 2018, the above rate reconciliation table reflects the impact of uncertain tax positions, tax audits and other tax return adjustments, offset by the geographic mix of foreign taxable income and loss.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Uncertain tax positions*

Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when the Company believes that certain positions might be challenged despite its belief that its tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or changes in the tax law. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(U.S. \$ in thousands)		
Balance at beginning of year	27,317	18,000	\$ 13,930
Additions for tax positions related to the current year	12,321	8,777	4,039
Foreign currency impact	(2,000)	1,242	-
Adjustments for tax positions related tax settlements	(15,576)	(687)	129
Reduction of reserve for statute expirations	(18)	(15)	(98)
Balance at end of year	\$ 22,044	\$ 27,317	\$ 18,000

Substantially all the balance of unrecognized tax benefits, if recognized, would reduce the Company's annual effective tax rate.

The Company's accrual for estimated interest and penalties was \$907 thousand as of December 31, 2018. The Company does not expect uncertain tax positions to change significantly over the next twelve months.

The Company is subject to income taxes in the U.S., various states, Israel and certain other foreign jurisdictions. The Company files income tax returns in various jurisdictions with varying statutes of limitations. Tax returns of Stratasys Inc. submitted in the United States through 2012 tax year are considered to be final following the completion of the Internal Revenue Service examination. Tax returns of Stratasys Ltd. submitted in Israel through the 2015 tax year are considered to be final following the completion of the Israeli Tax Authorities examination upon audit. The expiration of the statute of limitations related to the various other foreign and state income tax returns that the Company and its subsidiaries file vary by state and foreign jurisdiction.

**Table of Contents**

**STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**c. Basis of taxation:**

The enacted statutory tax rates applicable to the Company's major subsidiaries outside of Israel are as follows:

- Company incorporated in the U.S.—tax rate of approximately 21%.
- Company incorporated in Germany—tax rate of approximately 29%.
- Company incorporated in Hong Kong—tax rate of 16.5%.

A significant portion of the Company's income is taxed in Israel. The following is a summary of how the Company's income is taxed in Israel:

Corporate tax rates in Israel are as follows: 2016-25%, 2017-24% and 2018 and thereafter-23%. The Company elected to compute its taxable income in accordance with Income Tax Regulations (Rules for Accounting for Foreign Investors Companies and Certain Partnerships and Setting their Taxable Income), 1986. Accordingly, the Company's taxable income or loss is calculated in U.S. dollars. Applying these regulations reduces the effect of foreign exchange rate fluctuations (of the NIS in relation to the U.S. dollar) on the Company's Israeli taxable income.

*Tax benefits under the Law for Encouragement of Capital Investments, 1959 (the "Investment Law")*

Various industrial projects of the Company have been granted "Approved Enterprise" and "Beneficiary Enterprise" status, which provides certain benefits, including tax exemptions for undistributed income and reduced tax rates. Income not eligible for Approved Enterprise and Beneficiary Enterprise benefits is taxed at the regular corporate rate, which was 23% in 2018.

The Company is a Foreign Investors Company, or FIC, as defined by the Investment Law. FICs are entitled to further reductions in the tax rate normally applicable to Approved Enterprises and Beneficiary Enterprises, depending on the level of foreign ownership. When foreign (non-Israeli) ownership equal or exceeds 90%, the Approved Enterprise and Beneficiary Enterprise income is either tax-exempt for a limit period between two to ten years depending on the location of the enterprise or taxable at a tax rate of 10% for a 10-year period. The Company cannot assure that it will continue to qualify as a FIC in the future or that the benefits described herein will be granted in the future.

In the event of distribution of dividends from the said tax-exempt income during the tax exemption period as described above, the amount distributed will be subject to tax in respect of the amount of dividend distributed (grossed up to reflect such pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have been otherwise applicable if such income had not been tax-exempted under the alternative benefits program. This rate generally ranges from 10% to 25%, depending on the level of foreign investment in the company in each year, as explained above. Dividends paid out of income attributed to Approved Enterprise or Beneficiary Enterprise (or out of dividends received from a company whose income is attributed to an Approved or Beneficiary Enterprise) are generally subject to withholding tax at the source at the rate of 15%, unless a lower rate is provided in a treaty between Israel and the shareholder's country of residence (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). The 15% tax rate 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 the 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 an FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the Investment Law and regulations published thereunder. Should the Company fail to meet such requirements in the future, income attributable to its Approved Enterprise and Beneficiary Enterprise programs would be subject to the statutory Israeli corporate tax rate and the Company would be required to refund a portion of the tax benefits already received with respect to such programs. The refund will be subject to interest and index changes as applicable the law or other monetary penalty.

The Company does not intend to distribute any amounts of its undistributed tax-exempt income as dividends, as it intends to reinvest its tax-exempt income within the Company. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved or Beneficiary Enterprise programs, as the undistributed tax exempt income is essentially permanent in duration.

As of December 31, 2018, tax-exempt income of approximately \$238.3 million is attributable to the Company's various Approved and 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 taxes of approximately \$23.8 million would be incurred as of December 31, 2018.

## Edgar Filing: STRATASYS LTD. - Form 20-F

A January 2011 amendment to the Investment Law (the “2011 Amendment”) created alternative benefit tracks to those previously in place, as follows: an investment grants track designed for enterprises located in certain development zones and two new tax benefits tracks (“Preferred Enterprise” and “Special Preferred Enterprise”), which provide for application of a unified tax rate to all preferred income of the company, as defined in the Investment Law.

F-30

---

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The 2011 Amendment canceled the availability of the benefits granted 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) effective as of January 1, 2011 and thereafter. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity, or (ii) a limited partnership that: (a) was registered under the Israeli Partnerships Ordinance, and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company was entitled to a reduced corporate tax rate of 16% with respect to its preferred income attributed to its Preferred Enterprise, unless the Preferred Enterprise was located in a certain development zone, in which case the rate was 9%. In 2017 and thereafter, the corporate tax rate for Preferred Enterprise which is located in a certain development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%.

Dividends paid out of preferred income attributed to a Preferred Enterprise is 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 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).

*Tax benefits under the Israeli Law for the Encouragement of Industry (Taxation), 1969*

The Company is an “Industrial Company” as defined by the Israeli Law for the Encouragement of Industry (Taxation), 1969, and, as such, is 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.

*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 was 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. 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 Innovation, to which we refer as NATI.

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 NATI. 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. If such dividends are distributed to a foreign company and other conditions are met, the withholding tax rate will be 4%.

We are examining the impact of the 2017 Amendment and the degree to which we will qualify as a Preferred Technology Enterprise or Special Preferred Technology Enterprise, and the amount of Preferred Technology Income or other benefits that we may receive from the 2017 Amendment.



**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 10. Commitments and Contingencies****a. Commitments**

The Company leases certain of its facilities under non-cancellable operating leases, which expire through 2024.

Future minimum annual lease payments under all non-cancelable operating leases with an initial term in excess of one year as of December 31, 2018 are as follows:

<b>Year ending December 31,</b>	<b>Minimum future operating lease payments</b> (U.S. \$ in thousands)
2019	\$ 8,445
2020	6,440
2021	4,362
2022	3,265
2023	1,894
Thereafter	593
	24,999

Rent expense for the years ended December 31, 2018, 2017 and 2016 was approximately \$8.2 million, \$10.0 million and \$14.0 million, respectively.

***Borrowing Agreement***

In December 2016, the Company entered into a secured loan agreement with Bank Hapoalim Ltd., pursuant to which the Company borrowed \$26 million initially (the "Bank Loan") and secured a credit line with similar terms for an additional \$24 million (the "Credit Line"). The Bank Loan will mature in December 2023 and is payable in equal consecutive quarterly principal installments of principal and accrued interest. The repayment of the Bank Loan was secured by a first priority lien in the name of the lender on all of the Company's rights to its new headquarters property in Rehovot, Israel and it contains certain subjective acceleration clauses. The Bank Loan bears interest at the rate of LIBOR plus 3.35%. During December 2017, the Company borrowed \$10 million under the Credit Line.

Future annual principal payments under the Company's Bank Loan as of December 31, 2018 are as follows:

<b>Year ending December 31,</b>	<b>Loan principal amount</b> (U.S. \$ in thousands)
2019	\$ 5,143
2020	5,143
2021	5,143
2022	5,143
2023	5,143
Thereafter	1,428
	\$ 27,143

**b. Contingencies*****Patent Law-Based Claim***

On November 23, 2017, a former employee, whose employment had been terminated by the Company in 2008 and who had previously unsuccessfully filed a suit against the Company, brought an additional proceeding against the Company under Section 134 of the Israeli Patent Law seeking compensation and royalties for service inventions he invented while he served as an employee of the Company. In this new proceeding, the former employee claims to be entitled to receive royalties in an amount equal to: (a) 20% of the benefits, revenues and /or savings generated by the Company in the past and in the future, including the rise in the value of the Company, as determined in the merger with

Stratasys Inc., which took place in December 2012; (b) 20% of the gross profit generated by the Company in the past and 9% of the gross profit produced and that will be produced by the Company; (c) 20% of the gross profit generated by the Company in the past and the relative share of the former Objet entity of the Company in the total gross profit produced and that will be produced by the Company; or (d) 20% of the value of the service inventions at issue. The former employee further sought an order of accounts. The Company rejects the claims that serve as a basis for the proceeding and is defending against them vigorously.

The Company is a party to various other legal proceedings, the outcome of which, in the opinion of management, will not have a significant adverse effect on the financial position or profitability of the Company.

**Note 11. Equity**

**a. Share capital**

The Company's issued share capital is composed of ordinary shares NIS 0.01 par value per share. Ordinary shares confer upon their holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

The Company's ordinary shares are traded in the United States on the Nasdaq Global Select Market under the ticker symbol "SSYS". As of December 31, 2018 and 2017, there were 53,881 thousand ordinary shares and 53,631 thousand ordinary shares issued and outstanding, respectively. The increase in the outstanding and issued ordinary shares during 2018 was attributable to exercises of stock options and RSUs under the Company's stock-based compensation plans.



**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****b. Stock-based compensation plans**

The Stratasys Ltd. 2012 Omnibus Equity Incentive Plan (the "2012 Plan"), which became effective upon closing of the Stratasys-Objet merger, provides for the grant of options, restricted shares, RSUs, PSUs and other share-based awards to the Company's and its subsidiaries' respective directors, employees, officers, consultants, and to any other person whose services are considered valuable to the Company or any of its affiliates. Under the 2012 plan, options, RSUs and PSUs generally have a contractual term of ten years from the grant date. Options granted become exercisable and RSUs are vested over the requisite service period, which is normally a four-year period beginning on the grant date, subject to continued service to the Company. PSUs are vested only upon the achievement of certain pre-determined performance metrics. Once the performance metrics are met, vesting of PSUs is subject to continued service to the Company over the requisite service period, which is normally a two-year to four-year period. As of December 31, 2018, 1.7 million shares were available for future equity awards under the 2012 plan. On January 1, 2019, the reserve pool under the 2012 plan was increased by 0.2 million shares.

*Stock options*

A summary of the stock option activity for the year ended December 31, 2018 is as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Options outstanding as of December 31, 2017	3,330,953	\$ 31.53
Granted	135,000	21.63
Exercised	(152,628)	19.65
Forfeited	(761,582)	34.54
Options outstanding as of December 31, 2018	2,551,743	\$ 30.82
Options exercisable as of December 31, 2018	1,556,519	\$ 36.96

The following table summarizes information about stock options outstanding at December 31, 2018:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>		
	<b>Outstanding options at December 31, 2018</b>	<b>Weighted- Average Remaining Contractual Life in Years</b>	<b>Weighted- Average Exercise Price</b>	<b>Exercisable options at December 31, 2018</b>	<b>Weighted- Average Exercise Price</b>	
\$ 2.74 - \$ 19.59	34,810	8.93	\$ 17.86	\$22,309	\$ 16.89	
\$ 19.66 - \$ 19.66	1,056,722	8.05	19.66	452,620	19.66	
\$ 19.96 - \$ 23.41	705,283	7.05	21.91	394,269	21.99	
\$ 24.66 - \$ 120.51	754,928	5.13	55.36	687,321	57.60	
	2,551,743	6.92	\$ 30.82	1,556,519	\$ 36.96	

Aggregate intrinsic value

(U.S. \$ in thousands)                      \$53    \$53

As of December 31, 2018, the weighted-average remaining contractual life of exercisable options was 6.3 years. The total intrinsic value of options exercised during 2018, 2017 and 2016 was approximately \$0.6 million, \$7.2 million and \$1.5 million, respectively.

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company used the Black-Scholes option-pricing model to determine the fair value of options granted during 2018, 2017 and 2016. The following assumptions were applied in determining the options' fair value on their grant date:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Risk-free interest rate	2.9%-3.1%	1.8%-2.2%	1.1% - 1.5%
Expected option term (years)	5.3-5.5	5.1-6.0	5.2-6.0
Expected share price volatility	52.0%-52.2%	52.6%-54.0%	53.6%-56.1%
Dividend yield	-	-	-
Weighted average grant date fair value	\$ 11.49	\$ 11.10	\$ 12.39

As of December 31, 2018, the Company had 1.0 million unvested options. As of December 31, 2018, the unrecognized compensation cost related to all unvested, equity-classified stock options of \$10.2 million is expected to be recognized as an expense on a straight-line basis over a weighted-average period of 1.9 years.

*Restricted Stock Units and Performance Stock Units*

A summary of the Company's RSUs and PSUs activity for the year ended December 31, 2018 is as follows:

	<b>Number of RSUs and PSUs</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested as of December 31, 2017	302,163	\$ 30.88
Granted	1,357,825	19.75
Vested	(97,591)	43.67
Forfeited	(139,510)	22.85
Unvested as of December 31, 2018	1,422,887	\$ 20.17

F-34

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The total vesting-date value of equity classified RSUs vested during 2018 was \$2.1 million. As of December 31, 2018, the unrecognized compensation cost related to all unvested equity classified RSUs and PSUs of \$22.7 million is expected to be recognized as an expense on a straight-line basis over a weighted-average period of 2.6 years.

Stock-based compensation expense for stock options, RSUs and PSUs included in the Company's Statements of Operations and Comprehensive Loss were allocated as follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(U.S. \$ in thousands)		
Cost of sales	\$ 1,474	\$ 2,580	\$ 2,780
Research and development, net	3,215	3,503	4,768
Selling, general and administrative	10,997	11,639	13,225
Total stock-based compensation expenses	\$ 15,686	\$ 17,722	\$ 20,773

**c. Accumulated other comprehensive loss**

The following tables present the changes in the components of accumulated other comprehensive loss, net of taxes for the years ended December 31, 2018, 2017 and 2016:

	<b>Year ended December 31, 2018</b>		
	<b>Net unrealized gain (loss) on cash flow hedges</b>	<b>Foreign currency translation adjustments U.S. \$ in thousands</b>	<b>Total</b>
Balance as of January 1, 2018	\$ 330	\$ (7,353 )	\$ (7,023 )
Other comprehensive loss before reclassifications	(1,814)	(2,691)	(4,505)
Amounts reclassified from accumulated other comprehensive loss	857	2,918	3,775
Other comprehensive income (loss)	(957 )	227	(730 )
Balance as of December 31, 2018	\$ (627 )	\$ (7,126 )	\$ (7,753 )

	<b>Year ended December 31, 2017</b>		
	<b>Net unrealized gain (loss) on cash flow hedges</b>	<b>Foreign currency translation adjustments U.S. \$ in thousands</b>	<b>Total</b>
Balance as of January 1, 2017	\$ (24 )	\$ (13,455 )	\$ (13,479)
Other comprehensive loss before reclassifications	1,315	5,834	7,149
Amounts reclassified from accumulated other comprehensive loss	(961 )	268	(693 )
Other comprehensive income (loss)	354	6,102	6,456
Balance as of December 31, 2017	\$ 330	\$ (7,353 )	\$ (7,023 )

F-35

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Year ended December 31, 2016</b>		
	<b>Net unrealized gain (loss) on cash flow hedges</b>	<b>Foreign currency translation adjustments U.S. \$ in thousands</b>	<b>Total</b>
Balance as of January 1, 2016	\$ (107)	\$ (10,667 )	\$ (10,774)
Other comprehensive loss before reclassifications	523	(2,788)	(2,265)
Amounts reclassified from accumulated other comprehensive loss	(440)	-	(440 )
Other comprehensive income (loss)	83	(2,788 )	(2,705 )
Balance as of December 31, 2016	\$ (24 )	\$ (13,455 )	\$ (13,479)

Realized gains and losses on cash flow hedges were reclassified primarily to research and development, net and selling and general and administrative expenses. For the year ended December 31, 2018, foreign currency translation adjustments were reclassified primarily to share in profits (loss) of associated companies due to the divestment of LPW.

**Note 12. Derivatives and Hedging Activities**

The Company carries out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge the Company's exposure in currencies other than the U.S. dollar. The Company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and forecasted transactions denominated in the New Israeli Shekel ("NIS"), the Euro and the Japanese Yen. Gains and losses on the hedging instruments offset losses and gains on the hedged items.

The following table summarizes the consolidated balance sheets classification and fair values of the Company's derivative instruments:

	<b>Balance sheet location</b>	<b>Fair Value</b>		<b>Notional Amount</b>	
		<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
(U.S. \$ in thousands)					
Assets					
derivatives					
-Foreign					
exchange					
contracts,					
not					
designated	Other				
as hedging	current				
instruments	assets	\$ 374	\$ 90	\$ 34,695	\$ 22,036
Assets					
derivatives					
-Foreign					
exchange					
contracts,					
designated	Other				
as cash flow	current				
hedge	assets	-	263	-	13,169
Liability	Accrued	(196 )	(921 )	54,425	65,668
derivatives	expenses				
-Foreign	and other				
exchange	current				
contracts,	liabilities				
not					

Edgar Filing: STRATASYS LTD. - Form 20-F

designated as hedging instruments Liability derivatives -Foreign exchange contracts, designated as cash flow hedge	Accrued expenses and other current liabilities	(628)	-	41,303	-
		\$ (450 )	\$ (568 )	\$ 130,423	\$ 100,873

As of December 31, 2018, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$89.1 million and were used to reduce foreign currency exposures of the Euro, New Israeli Shekel (the "NIS"), Japanese Yen, Korean Won and Chinese Yuan. With respect to such derivatives, gain of \$2.0 million and loss of \$5.0 million were recognized under financial income, net for the years ended December 31, 2018 and 2017, respectively. Such gains and losses partially offset the revaluation losses of the balance sheet items, which are also recognized under financial income, net.

**Table of Contents****STRATASYS LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2018 and 2017, the Company had in effect foreign exchange forward contracts for the conversion of \$41.3 million and \$13.2 million, respectively, into NIS. These foreign exchange forward contracts were designated as cash flow hedge for accounting purposes. The Company uses short-term cash flow hedge contracts to reduce its exposure to variability in expected future cash flows resulting mainly from payroll costs denominated in New Israeli Shekels. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss. These contracts mature through December, 2019.

**Note 13. Entity-Wide Disclosure**

Revenues by geographic area for the years ended December 31, 2018, 2017 and 2016 were as follows\*:

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(U.S. \$ in thousands)		
Americas (primarily the United States)	\$ 409,741	\$ 413,326	\$ 411,536
EMEA	147,162	148,279	137,924
Asia Pacific	106,334	106,757	122,998
	<b>\$ 663,237</b>	<b>\$ 668,362</b>	<b>\$ 672,458</b>

\* Net sales are attributed to geographic areas based on the location of customer.

No single customer accounted for 10% or more of Company's total net sales, or Company's net accounts receivable, in any fiscal year presented.

Property, plant and equipment by geographical area were as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	(U.S. \$ in thousands)	
Americas (primarily the United States)	\$ 63,714	\$ 75,191
EMEA	\$ 122,678	120,498
Asia Pacific	\$ 1,758	4,262
	<b>\$ 188,150</b>	<b>\$ 199,951</b>

Property, plant and equipment that were located in Israel amounted to \$105.3 million and \$101.4 million for the years ended December 31, 2018 and 2017, respectively and are included under the EMEA region in the above table.

**Table of Contents****STRATASYS LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 14. Earnings per Share**

The following table presents the computation of basic and diluted net loss per share:

	<b>Year ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(In thousands, except per share amounts)		
<b>Numerator:</b>			
Net loss attributable to Stratasys Ltd.	\$ (10,964)	\$ (39,981)	\$ (77,219)
Adjustment of redeemable non-controlling interest to redemption amount	(935 )	-	-
Net loss attributable to Stratasys Ltd. for basic loss per share	(11,899)	(39,981)	(77,219)
Adjustment of deferred payments liability revaluation	-	-	(830 )
Net loss attributable to Stratasys Ltd. for diluted loss per share	(11,899)	(39,981)	(78,049)
<b>Denominator:</b>			
Add:			
Weighted average shares – denominator for basic net loss per share	53,751	52,959	52,330
Add:			
Shares settlement presumed for deferred payments liability	-	-	252
Denominator for diluted loss per share	53,751	52,959	52,582
Net loss per share			
Basic	\$ (0.22 )	\$ (0.75 )	\$ (1.48 )
Diluted	\$ (0.22 )	\$ (0.75 )	\$ (1.48 )

The computation of diluted net loss per share for the years ended December 31, 2018, 2017 and 2016 excluded share awards of 4.0 million, 3.8 million and 3.1 million, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

**Table of Contents****SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

Years ended December 31, 2018, 2017, and 2016 (U.S. \$ in thousands):

COLUMN A	Column B Balances at	Column C - Additions Charged to		Column D - Deductions		Column E Balances
Description	beginning	costs and	Charged to other accounts	Charged to income	Charged to other accounts	at end
Description	of period	expenses				of period
Reserve for bad debts and allowances						
Year ended December 31, 2018	\$ 2,735	\$ 1,657	\$ -	\$ 1,593	\$ -	\$ 2,799
Year ended December 31, 2017	\$ 1,687	\$ 1,665	\$ -	\$ 617	\$ -	\$ 2,735
Year ended December 31, 2016	\$ 1,357	\$ 991	\$ -	\$ 661	\$ -	\$ 1,687
Valuation allowances on deferred tax assets						
Year ended December 31, 2018	\$ 152,062	\$ 597	\$ -	\$ -	\$ -	\$ 152,659
Year ended December 31, 2017	\$ 201,376	\$ 22,998	\$ -	\$ 65,572	\$ 6,740	\$ 152,062
Year ended December 31, 2016	\$ 152,115	\$ 49,261	\$ -	\$ -	\$ -	\$ 201,376

S-1



**Table of Contents**

**ITEM 19. EXHIBITS.**

Please see the exhibit index incorporated herein by reference.

**Table of Contents**

**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 filed on its behalf.

STRATASYS LTD.

/s/ Lilach Payorski  
Lilach Payorski  
Chief Financial Officer  
March 7, 2019

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

**Number Document Description**

<b><u>1.1</u></b>	<u>Amended and Restated Articles of Association of Stratasys Ltd. (1)</u>
<b><u>1.2</u></b>	<u>Memorandum of Association of Stratasys Ltd. (2)</u>
<b><u>2.1</u></b>	<u>Specimen ordinary share certificate of Stratasys Ltd. (3)</u>
<b><u>4.1.1</u></b>	<u>Stratasys Ltd. 2012 Omnibus Equity Incentive Plan (4)</u>
<b><u>4.1.2</u></b>	<u>Amendment to Stratasys Ltd. 2012 Omnibus Equity Incentive Plan (5)</u>
<b><u>4.2</u></b>	<u>Form of Indemnification Agreement by and between Stratasys Ltd. and each of its directors and executive officers (6)</u>
<b><u>4.3</u></b>	<u>OEM Purchase and License Agreement, effective as of May 5, 2011, by and between Stratasys Ltd. (formerly known as Objet Geometries Ltd.) and Ricoh Printing Systems America, Inc. (7)</u>
<b><u>4.4</u></b>	<u>Assignment, dated October 23, 1989, from S. Scott Crump to Stratasys, Inc. (a subsidiary of Stratasys Ltd.) with respect to a patent application for an apparatus and method for creating three-dimensional objects (8)</u>
<b><u>4.5</u></b>	Assignment, dated June 5, 1992, from S. Scott Crump to Stratasys, Inc. (a subsidiary of Stratasys Ltd.) with respect to a patent application for a modeling apparatus for three dimensional objects (8)
<b><u>4.6</u></b>	Assignment, dated June 1, 1994, from S. Scott Crump, James W. Comb, William R. Priedeman, Jr., and Robert Zinniel to Stratasys, Inc. (a subsidiary of Stratasys Ltd.) with respect to a patent application for a process and apparatus of support removal for three-dimensional modeling (8)
<b><u>4.7</u></b>	Stratasys Ltd. Compensation Policy for Executive Officers and Directors (9)
<b><u>8.1</u></b>	<u>Subsidiary List of Stratasys Ltd.</u>
<b><u>12.1</u></b>	<u>Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act</u>
<b><u>12.2</u></b>	<u>Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act</u>
<b><u>13</u></b>	<u>Certification of Chief Executive Officer and Chief 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</u>
<b><u>15.1</u></b>	<u>Consent of Kesselman &amp; Kesselman, a member firm of PricewaterhouseCoopers International Limited, an independent registered public accounting firm</u>
<b>101</b>	The following financial information from Stratasys Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2018 and 2017; (ii) Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Changes in Equity for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under those sections.

## Edgar Filing: STRATASYS LTD. - Form 20-F

Incorporated by reference to Appendix A to the registrant's proxy statement for its February 3, 2015 extraordinary general meeting of (1) shareholders, attached as Exhibit 99.1 to the registrant's report of foreign private issuer on Form 6-K furnished to the SEC on January 6, 2015

Incorporated by reference to Exhibit 3.2 to the registrant's registration statement on Form F-4, SEC File No. 333-182025, filed with the SEC (2) on June 8, 2012

Incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the registrant's registration statement on Form F-4, SEC File No. (3) 333-182025, filed with the SEC on August 6, 2012

Incorporated by reference to Exhibit 10.6 to Amendment No. 3 to the registrant's registration statement on Form F-4, SEC File No. 333-(4) 182025, filed with the SEC on August 6, 2012

---

## Edgar Filing: STRATASYS LTD. - Form 20-F

### **Table of Contents**

Incorporated by reference to Proposal 3 of the registrant's proxy statement for its February 2013 extraordinary general meeting of shareholders, attached as Exhibit 99.1 to the registrant's report of foreign private issuer on Form 6-K furnished to the SEC on January 28, (5)2013

Incorporated by reference to Exhibit 10.7 to the registrant's registration statement on Form F-4, SEC File No. 333- 182025, filed with the SEC (6)on June 8, 2012

Incorporated by reference to Exhibit 10.10 to the registrant's registration statement on Form F-4, SEC File No. 333-182025, filed with the (7)SEC on June 8, 2012#

Incorporated by reference to Amendment No. 1 to Stratasys, Inc.'s registration statement on Form SB-2 (SEC File No. 333-99108) filed with (8)the SEC on December 20, 1995

Incorporated by reference to Appendix A to the registrant's proxy statement for its 2018 annual general meeting of shareholders, attached as (9)Exhibit 99.1 to the registrant's report of foreign private issuer on Form 6-K furnished to the SEC on August 8, 2018  
# Portions of this exhibit have been omitted and filed separately with the SEC pursuant to a confidential treatment request.

---