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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2019  
or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-18805

**ELECTRONICS FOR IMAGING, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3086355**  
(I.R.S. Employer  
Identification No.)

**6750 Dumbarton Circle, Fremont, CA 94555**  
(Address of principal executive offices) (Zip code)  
**(650) 357-3500**  
(Registrant's telephone number, including area code)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act) (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 Par Value	EFII	The Nasdaq Stock Market LLC

The number of shares of Common Stock outstanding as of May 1, 2019 was 43,139,408.

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**PART I FINANCIAL INFORMATION**

**Item 1: Condensed Consolidated Financial Statements (Unaudited)**

**Electronics For Imaging, Inc.  
Condensed Consolidated Balance Sheets  
(unaudited)**

(in thousands)	March 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 388,246	\$ 309,052
Short-term investments	—	102,349
Accounts receivable, net of allowances of \$30.9 million and \$32.3 million, respectively	242,121	241,841
Inventories	141,880	134,348
Income taxes receivable	2,731	4,926
Assets held for sale	2,800	2,800
Other current assets	50,094	44,623
<b>Total current assets</b>	<b>827,872</b>	<b>839,939</b>
Property and equipment, net	80,749	77,613
Restricted cash equivalents	39,809	39,809
Goodwill	391,200	390,109
Intangible assets, net	65,157	74,722
Deferred tax assets	44,317	39,449
Operating lease right-of-use assets	34,582	—
Other assets	41,588	37,393
<b>Total assets</b>	<b>\$ 1,525,274</b>	<b>\$ 1,499,034</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 133,340	\$ 148,587
Accrued and other liabilities	76,024	79,323
Deferred revenue	75,716	60,547
Convertible senior notes, net – current	338,234	334,274
Operating lease liabilities – current	8,764	—
Income taxes payable – current	6,307	5,077
<b>Total current liabilities</b>	<b>638,385</b>	<b>627,808</b>
Convertible senior notes, net – noncurrent	120,035	118,688
Operating lease liabilities – noncurrent	26,991	—
Contingent and other liabilities – noncurrent	3,380	7,179
Deferred tax liabilities	3,207	3,770
Income taxes payable – noncurrent	15,786	15,481
<b>Total liabilities</b>	<b>807,784</b>	<b>772,926</b>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value; 150,000 shares authorized; 55,898 and 55,347 shares issued, respectively	559	553
Additional paid-in capital	835,227	821,205
Treasury stock, at cost; 13,018 and 12,927 shares, respectively	(491,553)	(489,083)
Accumulated other comprehensive loss	(13,608)	(12,814)
Retained earnings	386,865	406,247
Total stockholders' equity	717,490	726,108
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,525,274</b>	<b>\$ 1,499,034</b>

*See accompanying notes to condensed consolidated financial statements.*

**Electronics For Imaging, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

(in thousands, except per share amounts)	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	\$ 223,715	\$ 239,866
Cost of revenue	113,896	120,759
<b>Gross profit</b>	109,819	119,107
Operating expenses:		
Research and development	39,737	38,279
Sales and marketing	45,871	46,680
General and administrative	24,982	19,421
Amortization of identified intangibles	9,978	12,138
Restructuring and other	2,416	4,654
Total operating expenses	122,984	121,172
<b>Loss from operations</b>	(13,165)	(2,065)
Interest expense	(6,918)	(4,954)
Interest and other income, net	1,572	1,289
<b>Loss before income taxes</b>	(18,511)	(5,730)
Provision (benefit) for income taxes	152	(2,135)
<b>Net loss</b>	\$ (18,663)	\$ (3,595)
Net loss per basic common share	\$ (0.44)	\$ (0.08)
Net loss per diluted common share	\$ (0.44)	\$ (0.08)
Shares used in basic per-share calculation	42,614	45,030
Shares used in diluted per-share calculation	42,614	45,030

*See accompanying notes to condensed consolidated financial statements.*

**Electronics For Imaging, Inc.**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**(unaudited)**

(in thousands)	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Net loss</b>	\$ (18,663)	\$ (3,595)
Net unrealized investment gains (losses):		
Unrealized holding loss, net of tax*	—	(548)
Reclassification adjustments included in net loss, net of tax*	—	2
Net unrealized investment loss	—	(546)
Currency translation adjustments	(794)	5,660
Net unrealized losses on cash flow hedges	—	(41)
<b>Comprehensive income (loss)</b>	\$ (19,457)	\$ 1,478

\* Tax effects were less than \$0.1 million for the periods presented above.

*See accompanying notes to condensed consolidated financial statements.*

**Electronics For Imaging, Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(unaudited)

(in thousands)	Common Stock			Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Additional Paid in Capital	Shares	Amount			
<b>Balances as of December 31, 2017</b>	<b>54,249</b>	<b>\$ 542</b>	<b>\$ 745,661</b>	<b>(9,070)</b>	<b>\$ (375,574)</b>	<b>\$ 8,138</b>	<b>\$ 402,544</b>	<b>\$ 781,311</b>
Effect from the adoption of ASC 606							4,674	4,674
Comprehensive income, net of tax						5,073	(3,595)	1,478
Stock repurchases				(615)	(17,601)			(17,601)
Stock-based compensation			6,770					6,770
Stock issued pursuant to ESPP	202	3	5,007					5,010
Restricted stock vested	39	—	—					—
<b>Balances as of March 31, 2018</b>	<b>54,490</b>	<b>\$ 545</b>	<b>\$ 757,438</b>	<b>(9,685)</b>	<b>\$ (393,175)</b>	<b>\$ 13,211</b>	<b>\$ 403,623</b>	<b>\$ 781,642</b>
<b>Balances as of December 31, 2018</b>	<b>55,347</b>	<b>\$ 553</b>	<b>\$ 821,205</b>	<b>(12,927)</b>	<b>\$ (489,083)</b>	<b>\$ (12,814)</b>	<b>\$ 406,247</b>	<b>\$ 726,108</b>
Effect from the adoption of ASC 842							(719)	(719)
Comprehensive loss, net of tax						(794)	(18,663)	(19,457)
Stock repurchases				(91)	(2,470)			(2,470)
Stock-based compensation			9,274					9,274
Stock issued pursuant to ESPP	212	2	4,752					4,754
Restricted stock vested	339	\$ 4	\$ (4)					—
<b>Balances as of March 31, 2019</b>	<b>55,898</b>	<b>\$ 559</b>	<b>\$ 835,227</b>	<b>(13,018)</b>	<b>\$ (491,553)</b>	<b>\$ (13,608)</b>	<b>\$ 386,865</b>	<b>\$ 717,490</b>

*See accompanying notes to condensed consolidated financial statements.*

**Electronics For Imaging, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

(in thousands)	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (18,663)	\$ (3,595)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,217	17,106
Deferred taxes	(11,736)	10,638
Provisions for bad debt and sales-related allowances	(467)	(1,219)
Provision for inventory obsolescence	2,355	1,650
Stock-based compensation expense	9,274	6,770
Non-cash accretion of interest expense on convertible notes and imputed financing obligation	4,802	3,802
Change in fair value of contingent consideration, including accretion	2,006	(1,459)
Payment of contingent obligations	(464)	(26)
Net change in derivative assets and liabilities	714	1,271
Other non-cash charges	577	386
Changes in operating assets and liabilities	(24,491)	(29,031)
Net cash provided by (used in) operating activities	(18,876)	6,293
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of short-term investments	102,006	7,318
Purchases, net of proceeds from sales, of property and equipment	(2,711)	(4,214)
Businesses purchased, net of cash acquired	—	(252)
Net cash provided by investing activities	99,295	2,852
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	4,754	5,010
Purchases of treasury stock and net share settlements	(2,470)	(17,601)
Repayment of acquisition-related debt	(1,437)	(254)
Contingent consideration payments related to businesses acquired	(2,252)	(698)
Net cash used in financing activities	(1,405)	(13,543)
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash equivalents	180	332
Increase (decrease) in cash, cash equivalents, and restricted cash equivalents	79,194	(4,066)
Cash, cash equivalents, and restricted cash equivalents at beginning of period	348,861	202,876
<b>Cash, cash equivalents, and restricted cash equivalents at end of period</b>	\$ 428,055	\$ 198,810

*See accompanying notes to condensed consolidated financial statements.*

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**

**Note 1. Basis of Presentation and Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements (“Condensed Consolidated Financial Statements”) include the accounts of Electronics For Imaging, Inc. and its subsidiaries (“EFF” or “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S.”) and (“GAAP”) for interim financial information, rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements, and accounting policies consistent in all material respects with those applied in preparing our audited annual consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”), except for the adoption of ASC 842 as described below. These condensed consolidated financial statements and accompanying notes should be read in conjunction with our annual consolidated financial statements and notes included in the 2018 Form 10-K. In the opinion of management, these condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, management considers necessary for the fair presentation of our financial position, operating results, comprehensive income (loss), and cash flows for the interim periods presented. Our results for the interim periods are not necessarily indicative of results to be expected for the entire year.

On April 14, 2019, the Company entered into a definitive agreement and plan of merger to be acquired by an affiliate of Siris Capital Group, LLC (“Siris”). See Note 2 – Business Acquisitions for further details.

**Recently Adopted Accounting Pronouncements**

**Leases.** On January 1, 2019, we adopted FASB ASU No. 2016-02, *Leases* (ASC 842), as amended, which supersedes the lease accounting guidance under Topic 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use (“ROU”) assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We adopted the new guidance using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating comparative periods. The standard had a material impact on our Condensed Consolidated Balance Sheet, but did not materially affect our Condensed Consolidated Statements of Operations or of Cash Flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

We elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract was or contains a lease, and our initial direct costs for leases that existed prior to January 1, 2019. We also elected to combine our lease and non-lease components and to not recognize ROU assets and lease liabilities for leases with an initial term of 12 months or less. We elected not to adopt the hindsight practical expedient when determining lease term and assessing impairment of ROU assets.

We determine if an arrangement is a lease at inception. We evaluate classification of leases at commencement and as necessary at modification. As of March 31, 2019, we did not have any finance leases as lessee. Operating leases are included in operating lease right-of-use assets, net, operating lease liabilities – current, and operating lease liabilities – noncurrent on the Condensed Consolidated Balance Sheets. ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at commencement in determining the present value of lease payments. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Variable lease payments are expensed as incurred and are not included within the ROU asset and lease liability calculation. Variable lease payments primarily include reimbursements of costs incurred by lessors for common area maintenance, utilities, and fuel and vehicle maintenance charges. Our leases may include options to extend or terminate the lease. The lease terms are determined using the noncancellable period, including any rent-free periods provided by the lessor, and reflect options to extend or terminate the lease when it is reasonably certain that we will exercise that option. At lease inception, and in subsequent periods as necessary, we estimate the lease term based on an assessment of extension and termination options that are reasonably certain to be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.



**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

We do not separate non-lease components from lease components for all underlying classes of assets. In addition, the Company does not recognize ROU assets and lease liabilities for short-term leases, which have a lease term of twelve months or less and do not include an option to purchase the underlying asset that we are reasonably certain to exercise.

Upon adoption, we recorded a cumulative effect adjustment to retained earnings of \$0.7 million, net of a tax adjustment of \$0.1 million, related to immaterial leases that we did not recognize in the Consolidated Statements of Operations on a straight-line basis under ASC 840. See Note 11 – Leases, for additional disclosures required upon adopting the standard.

The cumulative effect of the adjustments made to the Company's Condensed Consolidated Balance Sheet as of the adoption date is detailed as follows (in thousands):

	<b>December 31, 2018</b>	<b>Adjustments to Adopt ASC</b>	<b>January 1, 2019</b>
	<b>As Reported</b>	<b>842</b>	<b>As Adjusted</b>
<b>Assets:</b>			
Other current assets	\$ 44,623	\$ (1,626)	\$ 42,997
Operating lease right-of-use assets	—	36,863	36,863
Total assets	1,499,034	35,237	1,534,271
<b>Liabilities:</b>			
Accrued and other liabilities	79,323	(2,000)	77,323
Operating lease liabilities – current	—	8,720	8,720
Operating lease liabilities – noncurrent	—	29,236	29,236
Total liabilities	772,926	35,956	808,882
<b>Stockholders' equity:</b>			
Retained earnings	406,247	(719)	405,528
Total stockholders' equity	726,108	(719)	725,389

### Significant Accounting Policies

There have been no other material changes in our significant accounting policies, as compared to the significant accounting policies described in our 2018 Form 10-K.

### Note 2. Business Acquisitions

#### Proposed Acquisition

On April 14, 2019, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with East Private Holdings II, LLC, (“Parent”) and East Merger Sub, Inc., a wholly owned subsidiary of Parent (“Merger Sub”), providing for the merger of Merger Sub with and into the Company (the “Merger”), with the Company continuing as the surviving company of the merger and a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of the Siris Funds (as defined below). The all-cash transaction is valued at approximately \$1.7 billion.

Subject to the terms and conditions set forth in the Merger Agreement, each share of the Company’s common stock outstanding immediately prior to the Merger will automatically be cancelled, extinguished and converted into the right to receive \$37.00 per share in cash, without interest, and less any applicable withholding taxes (the “Merger Consideration”), (other than shares held by (a) the Company as treasury stock, (b) owned by the Parent or Merger Sub, (c) owned by any direct or wholly owned subsidiary of the Company, or (d) stockholders of the Company who properly exercised their appraisal rights under the General Corporation Law of the state of Delaware.

In addition, at or immediately prior to the effective time of the Merger, each of the Company’s outstanding restricted stock units that is subject to time-based vesting requirements only (“RSU”) and each of the Company’s outstanding restricted stock units that is subject to both time-based and performance-based vesting requirements (“PSU”) will be treated, as follows: (1) each RSU that is currently

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

outstanding as of immediately prior to the effective time of the Merger that is vested or scheduled to vest within 12 months after the closing of the Merger (the "Closing") will be converted into the right to receive the Merger Consideration promptly following the Closing; (2) each other RSU will be assumed and converted into the right to the Merger Consideration, subject to applicable tax withholding, in accordance with its existing vesting schedule and applicable terms and conditions immediately prior to the effective time of the Merger, including the holder's continued employment or service through the applicable vesting date; (3) each PSU granted pursuant to the Company's 2019 annual bonus program will be assumed and converted into the right to receive the Merger Consideration, subject to applicable tax withholding, in accordance with its existing vesting schedule and applicable terms and conditions immediately prior to the effective time of the Merger, including achievement of the applicable performance goals and the holder's continued employment or service through the applicable vesting date; (4) each other PSU ("LTIP PSU"), to the extent it would vest if the target level of performance established for the award had been attained, will be assumed and converted into a right to receive the Merger Consideration, subject to applicable tax withholding, in accordance with the time-based vesting schedule for the award (but in no event earlier than the end of the applicable performance period) and the applicable terms and conditions immediately prior to the effective time of the Merger (other than the performance-based vesting conditions), including the holder's continued employment through the applicable vesting date; and (5) each LTIP PSU, to the extent eligible to vest only if the target level of performance under the award was exceeded and held by an individual employed by the Company or one of its subsidiaries at the effective time of the Merger, will be assumed and converted into the right to receive the Merger Consideration, subject to applicable tax withholding, in accordance with the applicable terms and conditions immediately prior to the effective time of the Merger, including the time-based and performance-based vesting requirements applicable to the award, and any such LTIP PSU held by an individual not employed by the Company or one of its subsidiaries at the effective time of the Merger will be cancelled without payment at the effective time of the Merger. Any PSUs as to which the applicable performance period has ended prior to the effective time of the Merger and that remain subject only to time-based vesting conditions will be treated as RSUs as described above. In addition, at or immediately prior to the effective time of the Merger, each of the Company's stock options (whether vested or unvested) will be cancelled and converted into the right to receive, for each of the Company's common stock subject to the option, the Merger Consideration less the per-share exercise price of the option (with any option that has a per-share exercise price equal to or greater than the Merger Consideration being cancelled without payment at the effective time of the Merger), subject to applicable tax withholding. In each case, any existing provisions for accelerated vesting of Company equity awards in connection with the transaction or in connection with a severance event under an employment or similar agreement will continue in effect in accordance with their terms.

Completion of the Merger is subject to the satisfaction of several conditions, including: (i) adoption of the Merger Agreement by the requisite vote of the Company's stockholders; (ii) the expiration or termination of any applicable waiting period relating to the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"); and (iii) certain other customary conditions. On May 3, 2019, the U. S. Federal Trade Commission granted early termination of the waiting period under the HSR Act.

During the period beginning on the date of the Merger Agreement until 12:01 am New York time on May 29, 2019 (the "Go-Shop Period"), the Company may solicit alternative acquisition proposals from third parties and will have the right to terminate the Merger Agreement to enter into a superior proposal subject to the terms and conditions of the Merger Agreement. If the Company terminates the Merger Agreement for the purpose of entering into an agreement in respect of a superior proposal during the Go-Shop Period, the Company must pay a termination fee of \$25.4 million to Parent. If there is a superior proposal, the Merger Agreement provides Parent with a customary right to attempt to match a superior proposal.

The Merger Agreement contains certain termination rights for each of the Company and Parent, and further provides that, upon termination of the Merger Agreement, under specified circumstances, the Company may be required to pay Parent a termination fee of either \$25.4 million as described above, or \$59.2 million or the Parent may be required to pay the Company a reverse termination fee of \$109.9 million.

Parent has obtained (i) equity financing commitments from Siris Partners IV, L.P. and Siris Partners IV Parallel, L.P. (collectively, the "Siris Funds"), and (ii) debt financing commitments from certain financial institutions for the purpose of, among other things, funding the aggregate Merger Consideration. Pursuant to a limited guarantee delivered by the Siris Funds to the Company, the Siris Funds have also agreed to guarantee Parent's obligation to pay any termination fee or damages awards to the Company and to reimburse the Company with respect to certain expenses in connection with the Merger, in each case as required by the Merger Agreement.

The Merger Agreement has been adopted by the board of directors of the Company, and the board of directors of the Company has recommended that the stockholders of the Company adopt the Merger Agreement. The Merger is expected to close in the third quarter of 2019, subject to satisfaction of the closing conditions. If the Merger is completed, our common stock will be delisted from Nasdaq

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

and deregistered under the Securities Exchange Act of 1934, as amended, and we will no longer file periodic reports with the Securities and Exchange Commission.

**Acquisition of BDR Boya Kimya San.Tic. A.S.**

On May 3, 2019, we acquired BDR Boya Kimya San.Tic. A.S. ("BDR"), a digital textile ink development and manufacturing company based in Turkey. BDR will expand the Company's digital textile ink offerings as well as providing a low-cost manufacturing facility for ink.

**Note 3. Net Loss Per Share**

Net income (loss) per basic common share is computed using the weighted average number of common shares outstanding during the period. Net income (loss) per diluted common share is computed using the weighted average number of common and dilutive potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect using the treasury stock method, non-vested shares of RSUs having a dilutive effect, non-vested PSUs for which the performance criteria have been met, shares to be purchased under our Employee Stock Purchase Plan ("ESPP") having a dilutive effect, the assumed release of shares for the expected satisfaction of contingent consideration based on achievement of specified performance criteria related to the acquisition of Corrugated Technologies, Inc. ("CTI"), the assumed conversion of our notes having a dilutive effect using the treasury stock method when the stock price exceeds the conversion price of our 0.75% Convertible Senior Notes due 2019 ("2019 Notes") and 2.25% Convertible Senior Notes due 2023 ("2023 Notes" and together with the 2019 Notes, the "Notes"), as well as the dilutive effect of our warrants when the stock price exceeds the warrant strike price. Our stock price has not exceeded the conversion price of the Notes or the strike price of the warrants during any periods presented. Any potential shares that are anti-dilutive are excluded from the effect of dilutive securities.

PSUs and market-based restricted stock units that would be issuable if the end of the reporting period were the end of the vesting period, if the result would be dilutive, are assumed to be outstanding for purposes of determining net income per diluted common share as of the later of the beginning of the period or the grant date. Accordingly, PSUs, which vested on various dates during the three months ended March 31, 2019 and 2018, based on achievement of specified performance criteria related to revenue, cash flows from operating activities, and non-GAAP operating income targets, are included in the determination of net income per diluted common share as of the beginning of each period.

Basic and diluted net loss per share are reconciled as follows (in thousands, except per share amounts):

<b>Basic and Diluted Net Loss per Share</b>	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Basic net loss per share:</b>		
Net loss	\$ (18,663)	\$ (3,595)
Weighted average common shares outstanding	42,614	45,030
<b>Basic net loss per share</b>	<b>\$ (0.44)</b>	<b>\$ (0.08)</b>
<b>Diluted net loss per share:</b>		
Net loss	\$ (18,663)	\$ (3,595)
Weighted average common shares outstanding	42,614	45,030
Weighted average common shares outstanding for purposes of computing diluted net loss per share	42,614	45,030
<b>Diluted net loss per share</b>	<b>\$ (0.44)</b>	<b>\$ (0.08)</b>

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
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Potential shares of common stock that were not included in the determination of diluted net loss per share because the impact of including them would have been anti-dilutive or performance conditions have not been met, consisted of the following (in thousands):

<b>Potential Shares Excluded from Diluted Net Loss per Share Computation</b>	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Options	28	69
RSUs & PSUs	1,183	751
ESPP purchase rights	1,281	862
<b>Total potential shares of common stock excluded from the computation of diluted net loss per share</b>	<b>2,492</b>	<b>1,682</b>

The weighted-average number of common shares outstanding does not include the effect of the potential common shares from conversion of our Notes and exercise of our warrants because the effect would have been anti-dilutive since the conversion price of the Notes and the strike price of the warrants exceeded the average market price of our common stock. We have the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion of the Notes. Our intent is to settle the principal amount of the Notes in cash upon conversion. As a result, only amounts payable in excess of the principal amount of the Notes are considered in diluted net income (loss) per share under the treasury stock method. The Note Hedges are not included in the calculation of diluted net loss per share because the effect of any exercise of the Note Hedges would be anti-dilutive. Please refer to Note 10 – Debt for additional information and definitions.

#### **Note 4. Segment Information**

Operating segment information is presented based on the internal reporting used by the chief operating decision making group (“CODM”) to allocate resources and evaluate operating segment performance. Our segments consist of Industrial Inkjet, Productivity Software, and Fiery.

**Industrial Inkjet** consists of our VUTEk super-wide and wide format display graphics, Nozomi corrugated packaging and display, Reggiani textile, and Cretaprint ceramic tile decoration and building material industrial digital inkjet printers; digital ultra-violet (“UV”) curable, light-emitting diode (“LED”) curable, ceramic, water-based, and thermoforming and specialty inks, as well as a variety of textile inks including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, water-based dispersed printing ink, supplies, and coatings; digital inkjet printer parts; and professional services. Printing surfaces include paper, vinyl, corrugated, textile, glass, plastic, aluminum composite, ceramic tile, wood, and many other flexible and rigid substrates.

**Productivity Software** consists of a complete software suite that enables efficient and automated end-to-end business and production workflows for the print and packaging industries. This *Productivity Suite* also provides tools to enable revenue growth, efficient scheduling, and optimization of processes, equipment, and personnel. Customers are provided the financial and technical flexibility to deploy locally within their business or to be hosted in the cloud. The Productivity Suite addresses all segments of the print industry and consists of the: (i) *Packaging Suite*, with Radius at its core, for tag & label, cartons, and flexible packaging businesses; (ii) *Corrugated Packaging Suite*, with CTI at its core, for corrugated packaging businesses, including corrugated control capability using EFI Escada; (iii) *Enterprise Commercial Print Suite*, with Monarch at its core, for enterprise print businesses; (iv) *Publication Print Suite*, with Monarch or Technique at its core, for publication print businesses; (v) *Midmarket Print Suite*, with Pace at its core, for medium size print businesses; (vi) *Quick Print Suite*, with PrintSmith Vision and essential capabilities of Digital StoreFront at its core, for small printers and in-plant sites; and (vii) *Value Added Products*, available with the suite and standalone, such as web-to-print, e-commerce, cross media marketing, warehousing, fulfillment, shop floor data collection, and shipping to reduce costs, increase profits, and offer new products and services to their existing and future customers. We also market Optitex computer-aided fashion design software, which facilitates fast fashion and increased efficiency in the textile and fashion industries.

**Fiery** consists of Fiery and FreeFlow Print Server (“FFPS”), which was acquired from Xerox Corporation (“Xerox”), that transform digital copiers and printers into high performance networked printing devices for the office, commercial and industrial printing markets. This operating segment is comprised of (i) stand-alone Digital Front Ends (“DFEs”) connected to digital printers, copiers, and other peripheral devices, (ii) embedded DFEs and design-licensed solutions used in digital copiers and multi-functional devices, (iii) optional software integrated into our DFE solutions such as Fiery Central, and Graphics Arts Package, (iv) Fiery Self Serve, our self-service and payment solution, and (v) stand-alone software-based solutions such as our proofing, textile, and scanning solutions.

Operating income is not reported by operating segment because operating expenses include significant shared expenses and other costs that are managed outside of the operating segments. Such operating expenses include various corporate expenses such as stock-

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

based compensation, corporate sales and marketing, research and development, amortization of identified intangibles, various non-recurring charges, and other separately managed general and administrative expenses.

Our revenue and gross profit (i.e., gross profit excluding stock-based compensation expense) by operating segment are summarized as follows (in thousands):

<b>Segment Revenue and Gross Profit</b>	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Industrial Inkjet</b>		
Revenue	\$ 130,423	\$ 142,209
Gross profit	44,312	49,707
Gross profit percentage	34.0%	35.0%
<b>Productivity Software</b>		
Revenue	\$ 39,512	\$ 43,775
Gross profit	28,333	31,413
Gross profit percentage	71.7%	71.8%
<b>Fiery</b>		
Revenue	\$ 53,780	\$ 53,882
Gross profit	37,959	38,755
Gross profit percentage	70.6%	71.9%

Operating segment profit is reconciled to our Condensed Consolidated Statements of Operations as follows:

(in thousands)	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Segment gross profit	\$ 110,604	\$ 119,875
Stock-based compensation expense	(785)	(768)
<b>Gross profit</b>	<b>\$ 109,819</b>	<b>\$ 119,107</b>

Tangible and intangible assets, net of liabilities, are summarized by operating segment as follows:

(in thousands)	<b>Industrial Inkjet</b>	<b>Productivity Software</b>	<b>Fiery</b>	<b>Unallocated Net Assets</b>	<b>Total</b>
<b>March 31, 2019</b>					
Goodwill	\$ 147,568	\$ 169,728	\$ 73,904	\$ —	\$ 391,200
Identified intangible assets, net	32,514	19,450	13,193	—	65,157
Tangible assets, net of liabilities	257,339	(9,102)	27,054	(14,158)	261,133
<b>Net tangible and intangible assets</b>	<b>\$ 437,421</b>	<b>\$ 180,076</b>	<b>\$ 114,151</b>	<b>\$ (14,158)</b>	<b>\$ 717,490</b>
<b>December 31, 2018</b>					
Goodwill	\$ 147,932	\$ 168,186	\$ 73,991	\$ —	\$ 390,109
Identified intangible assets, net	38,782	21,677	14,263	—	74,722
Tangible assets, net of liabilities	234,689	(12,747)	21,092	18,243	261,277
<b>Net tangible and intangible assets</b>	<b>\$ 421,403</b>	<b>\$ 177,116</b>	<b>\$ 109,346</b>	<b>\$ 18,243</b>	<b>\$ 726,108</b>

Corporate and unallocated net assets primarily consist of cash and cash equivalents, restricted cash equivalents, corporate headquarters facility, convertible senior notes, income taxes receivable, and income taxes payable.

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
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**Note 5. Revenue**

We derive our revenue primarily from product revenue, which includes industrial digital inkjet printers, ink, and parts; print production software; and DFEs. We receive service revenue from printer maintenance agreements, customer support, training, software development, and consulting.

The following table presents our disaggregated revenue by source, excluding sales and usage-based taxes:

Revenue by Major Products and Services (in thousands)	Three Months Ended March 31, 2019				Three Months Ended March 31, 2018			
	Industrial Inkjet	Productivity Software	Fiery	Total	Industrial Inkjet	Productivity Software	Fiery	Total
<b>Industrial Inkjet</b>								
Printers and parts	\$ 75,905	\$ —	\$ —	\$ 75,905	\$ 88,374	\$ —	\$ —	\$ 88,374
Ink, supplies, and maintenance	54,518	—	—	54,518	53,835	—	—	53,835
<b>Productivity Software</b>								
Licenses	—	9,608	—	9,608	—	12,656	—	12,656
Professional services	—	7,592	—	7,592	—	7,545	—	7,545
Maintenance and subscriptions	—	22,312	—	22,312	—	23,574	—	23,574
<b>Fiery</b>								
Digital front ends and related products	—	—	49,573	49,573	—	—	50,096	50,096
Maintenance and subscriptions	—	—	4,207	4,207	—	—	3,786	3,786
<b>Total</b>	<b>\$ 130,423</b>	<b>\$ 39,512</b>	<b>\$ 53,780</b>	<b>\$ 223,715</b>	<b>\$ 142,209</b>	<b>\$ 43,775</b>	<b>\$ 53,882</b>	<b>\$ 239,866</b>
<b>Timing of Revenue Recognition:</b>								
Transferred at a Point in Time	\$ 124,616	\$ 9,608	\$ 49,573	\$ 183,797	\$ 137,110	\$ 12,656	\$ 50,096	\$ 199,862
Transferred Over Time	5,807	29,904	4,207	39,918	5,099	31,119	3,786	40,004
<b>Total</b>	<b>\$ 130,423</b>	<b>\$ 39,512</b>	<b>\$ 53,780</b>	<b>\$ 223,715</b>	<b>\$ 142,209</b>	<b>\$ 43,775</b>	<b>\$ 53,882</b>	<b>\$ 239,866</b>
<b>Recurring/Non-Recurring:</b>								
Non-Recurring	\$ 75,905	\$ 17,200	\$ 49,573	\$ 142,678	\$ 88,374	\$ 20,201	\$ 50,096	\$ 158,671
Recurring	54,518	22,312	4,207	81,037	53,835	23,574	3,786	81,195
<b>Total</b>	<b>\$ 130,423</b>	<b>\$ 39,512</b>	<b>\$ 53,780</b>	<b>\$ 223,715</b>	<b>\$ 142,209</b>	<b>\$ 43,775</b>	<b>\$ 53,882</b>	<b>\$ 239,866</b>

We report revenue by geographic region based on ship-to destination which is summarized as follows:

Revenue by Geographic Region (in thousands)	Three Months Ended March 31,	
	2019	2018
Americas	\$ 104,569	\$ 117,385
Europe, Middle East, and Africa (“EMEA”)	91,159	88,175
Asia Pacific (“APAC”)	27,987	34,306
<b>Total revenue</b>	<b>\$ 223,715</b>	<b>\$ 239,866</b>

**Remaining Performance Obligations**

Revenue allocated to remaining performance obligations includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods (“backlog”). Remaining performance obligations were \$91.8 million as of March 31, 2019, of which we expect to recognize substantially all of the revenue over the next 12 months.

**Contract Balances**

Timing of revenue recognition may differ from timing of invoicing to customers. Payment terms and conditions vary by contract. Deferred revenue (contract liability) represents amounts received in advance, or invoiced in advance, for software and product support contracts, consulting and integration projects, SaaS arrangements, or product sales. We defer these amounts when we collect or invoice the customer and then generally recognize revenue either ratably over the support contract term, upon performing the related services, under the cost-to-cost method, or in accordance with our revenue recognition policy. Revenue recognized during the three months ended March 31, 2019, which was included in deferred revenue as of December 31, 2018, was \$28.7 million.

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
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Unbilled accounts receivable represent contract assets for revenue that have been recognized in advance of billing the customer, which is common for long-term contracts. Billing requirements vary by contract but are generally structured around time-based milestones. Unbilled accounts receivable as of December 31, 2018, that were transferred to accounts receivable during the three months ended March 31, 2019, were \$17.2 million.

The following table reflects the balances in unbilled accounts receivable and deferred revenue (in thousands):

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Unbilled accounts receivable – current	\$ 22,684	\$ 20,507
Unbilled accounts receivable – noncurrent	8,101	8,320
Deferred revenue – current	75,716	60,547
Deferred revenue – noncurrent	205	290

**Note 6. Supplemental Financial Statement Information**

Supplemental disclosures about cash flow information are as follows (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Net cash paid for income taxes	\$ 1,295	\$ 2,562
Cash paid for interest expense	1,388	1,716
Property, equipment, and intellectual property received, but not paid	1,288	999
Inventory reclassified as property and equipment, net for operating leases	4,921	—
Right of use asset recognized upon adoption of ASC 842	36,863	—
Lease liability recognized upon adoption of ASC 842	37,956	—
Non-cash changes in right of use assets and lease liabilities	279	—

**Inventories**

Inventories are as follows (in thousands):

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Raw materials	\$ 58,574	\$ 55,794
Work-in-process	13,545	12,971
Finished goods	69,761	65,583
<b>Total</b>	<u>\$ 141,880</u>	<u>\$ 134,348</u>

**Assets Held for Sale**

During the fourth quarter of 2017, our management approved a plan to sell approximately 31.5 acres of land and two manufacturing buildings located at One Vutek Place and 189 Waukewan Street, Meredith, New Hampshire, consisting of 163,000 total square feet. In the three months ended September 30, 2018, we sold the 189 Waukewan Street land and building for net proceeds of \$1.1 million and recognized a gain of \$0.1 million. The One Vutek Place land and building remained in assets held for sale at a total value of \$2.8 million as of March 31, 2019 and December 31, 2018 on the Condensed Consolidated Balance Sheets and are actively being marketed.

**Deferred Contract Acquisition Costs**

Certain of our sales incentive programs that meet the definition of an incremental cost of obtaining a customer contract are required to be capitalized under ASC 340-40. We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year, and amortize such costs over the expected period of benefit, generally three to four years. We determined the period of benefit by taking into consideration our customer contracts, our technology, and other factors. For contracts that have durations of less than one year, we follow the practical expedient and expense these costs when incurred.

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

**Equipment Leased to Customers Under Operating Leases, Net**

Equipment leased to customers under operating leases was as follows (in thousands):

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Equipment leased to customers under operating leases	\$ 12,170	\$ 7,376
Accumulated depreciation	(3,815)	(3,555)
<b>Equipment leased to customers under operating leases, net</b>	<b>\$ 8,355</b>	<b>\$ 3,821</b>

Scheduled minimum future rental revenue on operating leases as of March 31, 2019 was as follows (in thousands):

Remainder of 2019	\$ 2,213
2020	3,790
2021	1,584
2022	1,632
2023	2,900
<b>Total</b>	<b>\$ 12,119</b>

**Restricted Cash Equivalents and Investments.**

We have restricted cash equivalents that are required to be maintained by the lease related to our Manchester, NH facility. The funds are deposited with MUFG Americas Capital Leasing & Finance, LLC where they are restricted as collateral until the end of the underlying building lease period in 2024. These restricted cash equivalents were \$39.8 million as of both March 31, 2019 and December 31, 2018.

**Product Warranty Reserves**

Product warranty reserves are included in accrued and other liabilities on our Condensed Consolidated Balance Sheets (In thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Beginning balance</b>	\$ 12,774	\$ 16,335
Provisions, net of releases	2,433	2,972
Settlements	(3,159)	(4,501)
<b>Ending balance</b>	<b>\$ 12,048</b>	<b>\$ 14,806</b>

**Accumulated Other Comprehensive Loss ("AOCL")**

AOCL classified within stockholders' equity on our Condensed Consolidated Balance Sheets was as follows (in thousands):

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Currency translation loss	\$ (13,608)	\$ (12,814)

Amounts reclassified out of AOCL, net of tax, were immaterial for all periods presented, and consisted of unrealized gains and losses from investments in debt securities that are reported within interest and other income, net, in our Condensed Consolidated Statements of Operations.



**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

**Note 7. Accounts Receivable**

The accounts receivable allowance consisted of the following (in thousands):

<b>Accounts Receivable Allowance</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Allowance for doubtful accounts	\$ 21,537	\$ 21,354
Allowance for returns	4,724	4,417
Allowance for trade-ins	4,092	4,955
Allowance for sales rebates	587	1,540
<b>Total accounts receivable allowance</b>	<b>\$ 30,940</b>	<b>\$ 32,266</b>

**Accounts Receivable Sale Arrangements**

Trade receivables are derecognized from our Condensed Consolidated Balance Sheets when sold to third parties upon determining that such receivables are presumptively beyond the reach of creditors in a bankruptcy proceeding. Any servicing obligation is measured based on the fair value that a third party would charge to service these receivables. These servicing liabilities were determined to not be material as of March 31, 2019 and December 31, 2018.

U.S. trade receivables sold without recourse are generally short-term receivables with payment due dates of less than 10 days from the date of sale, and are subject to a servicing obligation. Trade receivables sold under these facilities were \$2.4 million during the three months ended March 31, 2019, and \$16.7 million during the year ended December 31, 2018, which approximates the cash received.

European trade receivables sold without recourse are generally short-term receivables secured by letters of credit with payment due dates of less than one year. Trade receivables sold under these facilities were \$1.7 million during the three months ended March 31, 2019 and \$10.3 million during the year ended December 31, 2018, which approximates the cash received.

We report collections from the sale of trade receivables to third parties as operating cash flows in the Condensed Consolidated Statements of Cash Flows.

**Financing Receivables**

Our financing receivables consist of sales-type lease and trade receivables that have an original contractual maturity in excess of one year. Sales-type lease receivables are included within other current assets and other assets, while trade receivables are included in accounts receivable, net and in other assets. Our financing receivables are summarized as follows (in thousands):

<b>Financing Receivables</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Sales-type lease receivables	\$ 30,140	\$ 31,201
Trade receivables	23,829	14,681
<b>Total financing receivables</b>	<b>\$ 53,969</b>	<b>\$ 45,882</b>
Scheduled to be received in excess of one year	\$ 28,500	\$ 29,470

**Note 8. Fair Value Measurements**

We invest our excess cash on deposit with major banks in money market, U.S. Treasury and government-sponsored entity, corporate, municipal government, asset-backed, and mortgage-backed residential debt securities. By policy, we invest primarily in high-grade marketable securities. We are exposed to credit risk in the event of default by the financial institutions or issuers of these investments to the extent of the amounts recorded in our Condensed Consolidated Balance Sheets.

We consider all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Typically, the cost of these investments approximates fair value. Marketable investments with a maturity greater than three months are classified as available-for-sale short-term investments. Available-for-sale securities are stated at fair value and, as of December 31, 2018, any unrealized gains and losses were included in the Condensed Consolidated Statement of Operations. Realized

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
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gains and losses on sales or maturities of financial instruments are recognized upon sale of the investments using the specific identification method.

Our available-for-sale short-term investments are summarized as follows (in thousands):

Available-for-Sale Short-Term Investments	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>March 31, 2019</b>				
<b>Total short-term investments</b>	\$ —	\$ —	\$ —	\$ —
<b>December 31, 2018</b>				
U.S. Government and sponsored entities	\$ 50,329	\$ —	\$ —	\$ 50,329
Corporate debt securities	47,434	—	—	47,434
Municipal securities	379	—	—	379
Asset-backed securities	4,091	—	—	4,091
Mortgage-backed securities – residential	116	—	—	116
<b>Total short-term investments</b>	<b>\$ 102,349</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 102,349</b>

In the three months ended December 31, 2018 we determined that it was more likely than not we would sell a substantial portion of our available for sale securities and recognized an unrealized loss of \$0.9 million which was reported in interest income and other income, net in the Consolidated Statements of Operations. Accordingly, there were no unrecognized losses in the investment portfolio as of December 31, 2018. In the three months ended March 31, 2019, we sold all of our available for sale securities, recognizing an insignificant gain. As of March 31, 2019, we own no short-term investments.

#### Fair Value Measurements

Our fair value hierarchy is defined as follows:

- Level 1: Inputs that are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2: Inputs that are other than quoted prices included within Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date for the duration of the instrument's anticipated life or by comparison to similar instruments; and
- Level 3: Inputs that are unobservable or reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. These include management's own judgments about market participant assumptions developed based on the best information available in the circumstances.

We utilize the market approach to measure the fair value of our fixed income securities. The market approach is a valuation technique that uses the prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value of our fixed income securities is obtained using readily-available market prices from a variety of industry standard data providers, large financial institutions, and other third-party sources for the identical underlying securities. The fair value of our investments in certain money market funds is expected to maintain a net asset value of \$1.00 per share and, as such, is priced at the expected market price.

We obtain the fair value of our Level 2 financial instruments from several third-party asset managers, custodian banks, and accounting service providers. Independently, these service providers use professional pricing services to gather pricing data, which may include quoted market prices for identical or comparable instruments or inputs other than quoted prices that are observable either directly or indirectly. As part of this process, we engaged a pricing service to assist management in its pricing analysis and assessment of other-than-temporary impairment. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we utilize a third-party pricing service, the impairment analysis and related valuations represent conclusions of management and not conclusions or statements of any third party.

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
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Our assets and liabilities measured at fair value by levels within the fair value hierarchy are summarized as follows:

(in thousands)	March 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Money market funds	\$ 230	\$ —	\$ —	\$ 230	\$ 28,715	\$ —	\$ —	\$ 28,715
U.S. Government and sponsored entities	—	—	—	—	28,885	21,444	—	50,329
Corporate debt securities	—	—	—	—	—	47,434	—	47,434
Municipal securities	—	—	—	—	—	379	—	379
Asset-backed securities	—	—	—	—	—	4,036	55	4,091
Mortgage-backed securities – residential	—	—	—	—	—	116	—	116
Derivative assets	—	3,244	—	\$ 3,244	—	3,468	—	\$ 3,468
<b>Total</b>	<b>\$ 230</b>	<b>\$ 3,244</b>	<b>\$ —</b>	<b>\$ 3,474</b>	<b>\$ 57,600</b>	<b>\$ 76,877</b>	<b>\$ 55</b>	<b>\$ 134,532</b>
<b>Liabilities:</b>								
Contingent consideration, current and noncurrent	\$ —	\$ —	\$ 10,017	\$ 10,017	\$ —	\$ —	\$ 10,501	\$ 10,501
Self-insurance	—	—	841	841	—	—	840	840
Derivative liabilities	—	3,889	—	3,889	—	3,399	—	3,399
<b>Total</b>	<b>\$ —</b>	<b>\$ 3,889</b>	<b>\$ 10,858</b>	<b>\$ 14,747</b>	<b>\$ —</b>	<b>\$ 3,399</b>	<b>\$ 11,341</b>	<b>\$ 14,740</b>

Money market funds are classified as cash equivalents and are classified as Level 1 because these securities are actively traded at \$1.00 net asset value. Investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices or alternative pricing sources with reasonable levels of price transparency. Investments in U.S. Treasury obligations are classified as Level 1 because these securities are valued based on quoted prices in active markets. There were no transfers between Level 1 and 2 during the three months ended March 31, 2019 and 2018.

Government agency investments and corporate debt instruments, including investments in asset-backed and mortgage-backed securities, have generally been classified as Level 2 because markets for these securities are less active or valuations for such securities utilize significant inputs, which are directly or indirectly observable. We held asset-backed securities with income payments derived from and collateralized by a specified pool of underlying assets. Asset-backed securities in the portfolio were predominantly collateralized by credit cards and auto loans.

**Liabilities for Contingent Consideration**

Acquisition-related liabilities for contingent consideration (i.e., earnouts) as of March 31, 2019 are related to our prior acquisitions. The fair value of these earnouts is estimated to be \$10.0 and \$10.5 million as of March 31, 2019, and December 31, 2018, respectively, by applying the income approach in accordance with ASC 805-30-25-5. Key assumptions include risk-free discount rates between 0.6% and 5.0%, as well as probability-adjusted revenue, gross profit, and direct operating income using the Monte Carlo valuation method. Probability-adjusted revenue, gross profit, and direct operating income are significant inputs that are not observable in the market and are therefore classified as Level 3 inputs. These contingent liabilities have been reflected in the Condensed Consolidated Balance Sheet as of March 31, 2019, as current and noncurrent liabilities of \$9.8 and \$0.2 million, respectively.

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

Changes in the fair value of contingent consideration are summarized as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Liability for Contingent Consideration</b>		
<b>Beginning balance</b>	\$ 10,501	\$ 35,702
Changes in valuation	1,986	(1,459)
Earnout accretion	21	230
Payments and settlements	(2,716)	(724)
Foreign currency adjustment	225	246
<b>Ending balance</b>	<b>\$ 10,017</b>	<b>\$ 33,995</b>

The Generation Digital earnout liability valuation increased during the three months ended March 31, 2019 by \$2.0 million based on actual and updated forecasted financial performance data. Earnout payments of \$2.7 million during the three months ended March 31, 2019 primarily related to the Escada contingent consideration liability. During the three months ended March 31, 2018, the Generation Digital and Shuttleworth earnout liability valuations decreased based on actual and forecasted financial performance data. Earnout payments primarily related to the Shuttleworth contingent consideration liability.

Since the primary inputs to the fair value measurement of contingent consideration liabilities are the probability-adjusted revenue and discount rate, we reviewed the sensitivity of the fair value measurement to changes in these inputs. We assessed the probability of achieving the revenue and profitability performance targets for contingent consideration associated with each acquisition at percentage levels between 50% and 100% as of each respective acquisition date based on an assessment of the historical performance of each acquired entity, our current expectations of future performance, and other relevant factors. A change in probability-adjusted revenue of five percentage points from the level assumed in the current valuations would result in an increase in the fair value of contingent consideration of \$0.9 million or a decrease of \$0.2 million. A change in the discount rate of one percentage point would result in an immaterial change in the fair value of contingent consideration. The potential undiscounted amount of contingent consideration that we could be required to pay related to our business acquisitions, beyond amounts currently accrued, is \$17.2 million as of March 31, 2019.

#### **Fair Value of Derivative Instruments**

We utilize the income approach to measure the fair value of our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates, and forward prices, and are therefore classified as Level 2 measurements. The notional amount of our derivative assets and liabilities was \$186.6 and \$191.8 million as of March 31, 2019 and December 31, 2018, respectively.

#### **Fair Value of Convertible Senior Notes**

In September 2014, we issued \$345 million aggregate principal amount of convertible senior notes. The 2019 Notes are carried at their original issuance value, net of unamortized debt discount, and are not marked to market each period. The fair value of the 2019 Notes as of March 31, 2019 was approximately \$336 million and was considered as a Level 2 fair value measurement. Fair value was estimated based upon actual quotations obtained at the end of the reporting period or the most recent date available. A substantial contributing factor to the market value of our 2019 Notes is the conversion premium.

In November 2018, we issued \$150 million aggregate principal amount of convertible senior notes. The 2023 Notes are carried at their original issuance value, net of unamortized debt discount, and are not marked to market each period. The fair value of the 2023 Notes as of March 31, 2019 was approximately \$150 million and was considered a Level 2 fair value measurement. Fair value was estimated based upon actual quotations obtained at the end of the reporting period or the most recent date available. A substantial contributing factor to the market value of our 2023 Notes is the conversion premium.

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**Note 9. Derivatives and Hedging**

We are exposed to market risk and foreign currency exchange risk from changes in foreign currency exchange rates, which could affect operating results, financial position, and cash flows. We manage our exposure to these risks through our regular operating and financing activities and, when appropriate, through use of derivative financial instruments. These derivative financial instruments are used to hedge monetary assets and liabilities, intercompany balances, trade receivables, and to reduce earnings and cash flow volatility resulting from shifts in foreign currency exchange rates. Our objective is to offset the remeasurement gains and losses resulting from these exposures with losses and gains on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets and liabilities. We do not have any leveraged derivatives, nor do we use derivative contracts for speculative purposes. We present the fair value of all open derivative instruments, including any embedded in other contracts, as assets or liabilities on our Condensed Consolidated Balance Sheets. The related cash flow impacts of our derivative contracts are reflected as cash flows from operating activities.

Our exposures are primarily related to non-U.S. dollar-denominated revenue in Europe, the U.K., Latin America, China, Israel, and Australia, and to non-U.S. dollar-denominated operating expenses in Europe, India, the U.K., China, Israel, Brazil, and Australia. We hedge balance sheet remeasurement exposure associated with British pound sterling, Canadian dollar, Chinese renminbi, Brazilian real, Israeli shekel, Japanese yen, and Euro-denominated intercompany balances; Brazilian real, British pound sterling, Australian dollar, Chinese renminbi, Israeli shekel, and Euro-denominated trade receivables; and British pound sterling, Israeli shekel, Canadian dollar, and Euro-denominated net monetary assets.

By their nature, derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange movement is expected to offset the market risk of the underlying transactions, assets, and liabilities being hedged. Under our master netting agreements with our foreign currency derivative counterparties, we are allowed to net transactions of the same currency with a single net amount payable by one party to the other. The derivatives held by us are not subject to any credit contingent features negotiated with these counterparties. We are not required to pledge cash collateral related to these foreign currency derivative contracts. We do not believe there is significant risk of loss from non-performance by the counterparty associated with these instruments because, by policy, we only deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

**Balance Sheet Hedges**

Our forward contracts are not designated for hedge accounting treatment since there is a natural offset for the remeasurement of the underlying foreign currency denominated asset or liability. We recognize changes in the fair value of non-designated derivative instruments in earnings in the period of change. Gains and losses on foreign currency forward contracts used to hedge balance sheet exposures are recognized in interest income and other income, net, in the same period as the remeasurement gain or loss of the related foreign currency denominated assets and liabilities. Our forward contracts not designated for hedge accounting treatment consisted of hedges of Australian dollar, British pound sterling, Brazilian real, Canadian dollar, Chinese renminbi, Euro, Israeli shekel, and Japanese yen.

These balance sheet hedges cover currency exposures in the following line items in the notional amounts indicated (in thousands):

<b>Balance sheet categories</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Accounts Receivable	\$ 51,047	\$ 52,200
Other assets and liabilities, net	40,267	40,400
Intercompany balances	95,256	99,200
Total	\$ 186,570	\$ 191,800

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**Note 10. Debt**

Our debt primarily consisted of convertible senior notes summarized as follows (in thousands):

<b>Convertible Senior Notes</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>2019 Notes (Maturing September 1, 2019)</b>		
Principal amount	\$ 345,000	\$ 345,000
Debt discount, net of amortization	(5,795)	(9,366)
Debt issuance costs, net of amortization	(971)	(1,360)
<b>Convertible senior notes – current</b>	<b>\$ 338,234</b>	<b>\$ 334,274</b>
<b>2023 Notes (Maturing November 15, 2023)</b>		
Principal amount	\$ 150,000	\$ 150,000
Debt discount, net of amortization	(26,463)	(27,653)
Debt issuance costs, net of amortization	(3,502)	(3,659)
<b>Convertible senior notes – non-current</b>	<b>\$ 120,035</b>	<b>\$ 118,688</b>

**0.75% Convertible Senior Notes Due 2019**

In September 2014, we issued \$345.0 million principal amount of the 2019 Notes. The initial conversion rate is 18.9667 shares of common stock per \$1,000 principal amount of 2019 Notes, which is equivalent to an initial conversion price of approximately \$52.72 per share of common stock. Upon conversion of the 2019 Notes, holders will receive cash, shares of common stock or a combination thereof, at our election. As of March 31, 2019, none of the conditions allowing holders of the 2019 Notes to convert had been met. The 2019 Notes mature on September 1, 2019. Our intent is to settle the principal amount of the Notes in cash. If the conversion value exceeds the principal amount, we would deliver shares of our common stock for our conversion obligation in excess of the aggregate principal amount. The cash payment of the principal amount will be presented as financing cash flow while the discount portion will be operating cash flow on our Statements of Cash Flows.

If the proposed transaction with an affiliate of Siris is completed (See Note 2 – Business Acquisitions) prior to the maturity date of the 2019 Notes, we will be required to repay the principal amount of the 2019 Notes, as well as a make-whole amount, in cash at the closing date of the transaction. Under the terms of the 2019 Notes, we estimate the total cash payment would be approximately \$345.0 million.

We allocated the total transaction costs incurred in the issuance of the 2019 Notes to the liability and equity components based on their relative values. Issuance costs of \$7.0 million attributable to the original \$281.4 million liability component are being amortized to expense over the term of the 2019 Notes, and issuance costs of \$1.6 million attributable to the original \$63.6 million equity component were offset against the equity component in stockholders' equity. Additionally, we recorded a deferred tax liability of \$23.7 million on the debt discount, which is not deductible for tax purposes.

**2.25% Convertible Senior Notes Due 2023**

In November 2018, we issued \$150 million aggregate principal amount of the 2023 Notes. Of the \$145 million total net proceeds, we used \$40.0 million for concurrent stock repurchases. The 2023 Notes are senior unsecured obligations and were issued at par with interest payable semiannually in arrears on May 15 and November 15 of each year, commencing May 15, 2019. The 2023 Notes will mature on November 15, 2023. The initial conversion rate is 28.0128 shares of common stock per \$1,000 principal amount of the 2023 Notes, which is equivalent to an initial conversion price of approximately \$35.70 per share of common stock. Upon conversion of the 2023 Notes, holders will receive cash, shares of common stock, or a combination thereof, at our election. Our intent is to settle the principal amount of the 2023 Notes in cash upon conversion. If the conversion value exceeds the principal amount, we intend to deliver shares of our common stock for our conversion obligation in excess of the aggregate principal amount. As of March 31, 2019, none of the conditions allowing holders of the 2023 Notes to convert had been met.

If the proposed transaction with an affiliate of Siris is completed (See Note 2 – Business Acquisitions), we will be required to repay the principal amount of the 2023 Notes, plus the cash value of any share price in excess of the initial conversion price, plus a make-

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whole payment in cash for the early redemption, on the closing date of the transaction. Under the terms of the 2023 Notes, we estimate the total cash payment would be approximately \$179.1 million.

We allocated the total transaction costs incurred in the issuance of the 2023 Notes to the liability and equity components based on their relative values. Issuance costs of \$3.7 million attributable to the original \$122.0 million liability component are being amortized to expense over the term of the Notes, and issuance costs of \$0.9 million attributable to the original \$28.0 million equity component were offset against the equity component in stockholders' equity. Additionally, we recorded a deferred tax liability of \$6.6 million on the debt discount, which is not deductible for tax purposes.

The equity components of the Notes as of March 31, 2019 and December 31, 2018 are summarized as follows (in thousands):

	2019 Notes	2023 Notes
Equity component	\$ 63,643	\$ 28,045
Less: debt issuance costs allocated to equity	(1,582)	(853)
Greenshoe option value	568	—
Tax effects	485	(6,619)
<b>Equity component, net</b>	<b>\$ 63,114</b>	<b>\$ 20,573</b>

Interest expense recognized on the Notes was as follows (in thousands):

Interest Expense	Three Months Ended March 31,	
	2019	2018
<b>2019 Notes</b>		
0.75% coupon	\$ 647	\$ 647
Amortization of debt discount	3,571	3,355
Amortization of debt issuance costs	389	397
<b>Interest expense on 2019 Notes</b>	<b>\$ 4,607</b>	<b>\$ 4,399</b>
<b>2023 Notes</b>		
2.25% Coupon	\$ 844	\$ —
Amortization of debt discount	1,190	—
Amortization of debt issuance costs	157	—
<b>Interest expense on 2023 Notes</b>	<b>\$ 2,191</b>	<b>\$ —</b>

#### Note Hedges

We paid an aggregate of \$63.9 million in convertible note hedge transactions with respect to our common stock ("Note Hedges") in September 2014 in conjunction with the issuance of the 2019 Notes. The Note Hedges will expire upon maturity of the 2019 Notes. The Note Hedges are intended to offset the potential dilution upon conversion and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the 2019 Notes in the event that the market value per share of our common stock, as measured under the terms of the Note Hedges, is greater than the strike price of the Note Hedges. The strike price of the Note Hedges initially corresponded to the conversion price of the 2019 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion price of the 2019 Notes. The Note Hedges are separate transactions and are not part of the 2019 Notes. Holders of the 2019 Notes do not have any rights with respect to the Note Hedges.

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**Warrants**

Concurrently with entering into the Note Hedges, we separately sold warrants to acquire shares of our common stock at a strike price of \$68.86 per share (the "Warrants"), in conjunction with the issuance of the 2019 Notes. We received aggregate proceeds of \$34.5 million from the sale of the Warrants. If the average market value per share of our common stock for the reporting period, as measured under the Warrants, exceeds the strike price of the Warrants, the Warrants will have a dilutive effect on our earnings per share. The Warrants are separate transactions and are not part of the 2019 Notes or the Note Hedges and are accounted for as a component of additional paid-in capital. Holders of the 2019 Notes and Note Hedges do not have any rights with respect to the Warrants. If the proposed transaction with an affiliate of Siris is completed (See Note 2 – Business Acquisitions), we will be required to repurchase the warrants for approximately \$4.6 million on the date of the transaction.

**Revolving Credit Agreement**

In January 2019, we entered into a 5-year \$150.0 million revolving credit agreement with an option for an additional \$50.0 million, subject to certain requirements. Interest is variable with a premium applied to an index rate. The amount of the premium varies based on our net leverage ratio. Interest is due monthly on any borrowings, and a commitment fee is assessed on the portion of the facility that is not utilized. This credit facility is secured by substantially all of our domestic assets and the pledge of 65% of the stock of our foreign subsidiaries. The agreement contains various affirmative and negative covenants, as well as three financial covenants based on leverage and interest coverage ratios. As of March 31, 2019, the Company was in compliance with the financial covenants under this agreement.

The issuance cost of \$0.8 million incurred on this facility was recorded in other long-term assets and is being amortized on a straight-line basis over the 5-year term of this agreement. There were no borrowings outstanding under the facility at March 31, 2019.

**Note 11. Leases**

We lease facilities and equipment under non-cancellable operating leases that have remaining lease terms of 5 month to 47 years, and 1 month to 5 years, respectively. Generally, each leased facility is subject to an individual lease or sublease, certain of which may provide options to extend or terminate the lease agreement. Facilities primarily consist of corporate offices, manufacturing sites, and storage facilities. Equipment primarily consists of vehicles and office equipment. Certain lease agreements also include variable lease payments that are primarily comprised of common area maintenance and utility charges, along with fuel and maintenance charges for vehicles. Short-term leases and sublease income are not material for the period. As further explained in Note 1 – Basis of Presentation and Significant Accounting Policies, we adopted ASC 842 effective January 1, 2019. Accordingly, right of use assets and lease liabilities for these operating leases are included on the Condensed Consolidated Balance Sheet as of March 31, 2019 but not as of December 31, 2018.

The components of our lease expense were as follows (in thousands):

	<b>Three Months Ended March 31, 2019</b>
Operating lease expense	\$ 2,721
Variable lease expense	392
<b>Total lease expense</b>	<b>\$ 3,113</b>

Other information related to lease term and discount rate is as follows:

	<b>March 31, 2019</b>
Weighted average remaining lease term (years)	13.9
Weighted average discount rate	4.0%



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Future minimum lease payments under noncancellable operating leases for each of the next five years ending December 31 and thereafter as of March 31, 2019 are as follows (in thousands):

	<b>March 31, 2019</b>
2019	\$ 7,535
2020	8,936
2021	5,889
2022	3,545
2023	1,995
Thereafter	24,560
<b>Total lease payments</b>	<b>52,460</b>
Less: imputed interest	(16,705)
<b>Total lease liabilities</b>	<b>\$ 35,755</b>

Future minimum operating lease payments for the years ending December 31, 2019 and 2020 in the preceding table exclude sublease rental income of \$0.2 and \$0.1 million, respectively. There were no leases signed but not commenced as of March 31, 2019.

Future minimum lease payments under noncancellable operating leases for each of the next five years and thereafter as of December 31, 2018 were as follows (in thousands):

	<b>December 31, 2018</b>
2019	\$ 6,559
2020	6,216
2021	4,355
2022	2,582
2023	1,423
Thereafter	24,180
<b>Total</b>	<b>\$ 45,315</b>

Future minimum operating lease payments for the years ending December 31, 2019 and 2020 in the preceding table exclude sublease rental income of \$0.4 and \$0.1 million, respectively.

## **Note 12. Commitments and Contingencies**

### **Contingent Consideration**

We may be required to make payments to the former owners of acquired businesses based on the achievement of specified performance targets as further explained in Note 8 – Fair Value Measurements.

### **Lease Commitments and Contractual Obligations**

As of March 31, 2019, we have leased certain of our current facilities and vehicles under noncancellable operating lease agreements. We are required to pay property taxes, insurance, and nominal maintenance costs for certain of these facilities and vehicles, and any increases over the base year of these expenses on the remainder of these leases. See additional discussion in Note 11 – Leases.

### **Legal Proceedings**

From time to time, we are involved in a variety of claims, lawsuits, investigations, or proceedings relating to contractual disputes, securities laws, intellectual property rights, employment, or other matters that may arise in the normal course of business. We assess our potential liability in each of these matters by using the information available to us. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and various combinations of

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appropriate litigation and settlement strategies. We accrue estimated losses from contingencies if a loss is deemed probable and can be reasonably estimated.

As of March 31, 2019, we are subject to the matters described below:

**Matan Digital Printing (“MDG”) Matter.** EFI acquired Matan Digital Printers (“Matan”) in 2015 from sellers (the “2015 Sellers”) that had acquired Matan Digital Printing Ltd. from other sellers in 2001 (the “2001 Sellers”). The 2001 Sellers have asserted a claim against the 2015 Sellers and Matan asserting that they are entitled to a portion of the 2015 Sellers’ proceeds from EFI’s acquisition. The 2015 Sellers dispute this claim and have agreed to indemnify EFI against the 2001 Sellers’ claim.

We do not believe that it is probable that we will incur a loss in the resolution of this matter. It is reasonably possible, however, that our financial statements could be materially affected by an unfavorable resolution and we could incur a material loss in this matter. We estimate the range of loss to be between one dollar and \$10.1 million. If we incur a loss in this matter, it will be offset by a receivable of an equal amount representing a claim for indemnification against the escrow account established in connection with the Matan acquisition.

**Purported Class Action Lawsuit.** On August 10, 2017, a putative class action was filed against the Company and its two named executive officers in the U.S. District Court for the District of New Jersey, captioned *Pipitone v. Electronics For Imaging, Inc.*, No. 2:17-cv-05992 (D.N.J.). A First Amended Complaint was filed on February 20, 2018. The plaintiffs alleged, among other things, that statements by the Company and its officers about the Company’s financial reporting, revenue recognition, internal controls, and disclosure controls and procedures were false or misleading. On January 31, 2019, the district court dismissed the complaint without prejudice. On April 12, 2019, the plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Third Circuit.

At this time, we do not believe it is probable that we will incur a material loss in this matter. However, it is possible that our financial statements could be materially affected by an unfavorable resolution of this matter. Because this matter was dismissed in its preliminary pleading stages, however, and because we view the plaintiffs’ likelihood of success on appeal to be small, we are not in a position to estimate an amount or range of reasonably possible loss that may be incurred.

**Purported Derivative Shareholder Lawsuits.** On August 22, 2017, a purported derivative shareholder complaint was filed in the Superior Court of the State of California for the County of Alameda captioned *Schiffmiller v. Gecht*, No. RG17873197. A First Amended Complaint was filed on April 13, 2018. The complaint makes claims derivatively and on behalf of the Company as nominal defendant against the Company’s named executive officers and directors for alleged breaches of fiduciary duties and unjust enrichment, and alleges, among other things, that statements by the Company and its officers about the Company’s financial reporting, revenue recognition, internal controls, and disclosure controls and procedures were false or misleading. The complaint alleges the Company has suffered damage as a result of the individual defendants’ alleged actions, and seeks an unspecified amount of damages, restitution, and declaratory and other relief. The derivative action has been stayed pending the resolution of the *Pipitone* class action described above.

At this time, we do not believe it is probable that we will incur a material loss in this matter. However, it is possible that our financial statements could be materially affected by an unfavorable resolution of this matter, which was stayed pending the resolution of the *Pipitone* class action described above. As the *Pipitone* matter was dismissed but is now on appeal, it is unclear whether this matter will continue to be stayed or will be dismissed, and we therefore are not in a position to estimate an amount or range of reasonably possible loss that may be incurred.

**Other Matters.** As of March 31, 2019, we were subject to various other claims, lawsuits, investigations, and proceedings in addition to the matters discussed above. There is at least a reasonable possibility that additional losses may be incurred in excess of the amounts that we have accrued. However, we believe that these claims are not material to our financial statements or the range of reasonably possible losses is not reasonably estimable. Litigation is inherently unpredictable, and while we believe that we have valid defenses with respect to legal matters pending against us, our financial statements could be materially affected in any particular reporting period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management’s attention and the incurrence of significant expenses.

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**Note 13. Stock Repurchase Program**

On September 11, 2017, the board of directors approved the repurchase of an additional \$125.0 million for our share repurchase program commencing September 11, 2017 and expiring on December 31, 2018. The board of directors had previously authorized \$150 million under the program in November 2015. We completed the total authorized amount as of December 31, 2018. As of March 31, 2019, there was no new authorized program for repurchases.

Our employees have the option to surrender shares of common stock to satisfy their tax withholding obligations that arise on the vesting of RSUs, the exercise price of certain stock options, and any tax withholding obligations incurred from exercise of stock options. Employees surrendered 91,027 and 7,571 shares at an aggregate value of \$2.5 and \$0.2 million during the three months ended March 31, 2019 and 2018, respectively.

**Note 14. Stock-based Compensation**

Our stock-based compensation expense is summarized as follows:

Stock-based Compensation Expense (in thousands)	Three Months Ended March 31,	
	2019	2018
Cost of revenue	\$ 785	\$ 768
Research and development	3,017	2,355
Sales and marketing	1,782	1,799
General and administrative	3,690	1,848
<b>Total stock-based compensation expense</b>	<b>\$ 9,274</b>	<b>\$ 6,770</b>

Stock-based compensation expense related to ESPP purchase rights and RSUs is summarized as follows:

Stock-Based Compensation Expense by Award Type (in thousands)	Three Months Ended March 31,	
	2019	2018
RSUs	\$ 7,728	\$ 5,324
ESPP purchase rights	1,546	1,446
<b>Total stock-based compensation expense</b>	<b>9,274</b>	<b>6,770</b>
Income tax benefit	(1,243)	(858)
<b>Stock-based compensation expense, net of tax</b>	<b>\$ 8,031</b>	<b>\$ 5,912</b>

**Valuation Assumptions for ESPP Purchase Rights and Stock Options**

We use the Black-Scholes-Merton ("BSM") option pricing model to value stock-based compensation for all equity awards, except time-based RSUs and market-based awards. Time-based RSUs are valued at the closing market price on the date of grant. Market-based awards are valued using the Monte Carlo valuation method.

The estimated weighted average fair value per share and underlying assumptions of ESPP purchase rights issued were as follows:

ESPP Assumptions	Three Months Ended March 31,	
	2019	2018
Weighted average fair value per share	\$7.54	\$9.30
Expected volatility	43% — 71%	59% — 107%
Risk-free interest rate	2.46% — 2.56%	1.60% — 2.20%
Expected term (in years)	0.5 — 2.0	0.5 — 2.0

No stock options were granted during the three months ended March 31, 2019 and 2018. As of March 31, 2019, 75,000 shares underlying stock options are outstanding and exercisable. They are time-based options with an aggregate intrinsic value of \$0.8 million, a weighted average exercise price of \$16.57 per share, and remaining contractual term of 0.44 years. Aggregate intrinsic value for stock options represents the difference between the closing price per share of our common stock on the last trading day of the

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period and the option exercise price, multiplied by the number of in-the-money stock options outstanding, vested and expected to vest, and exercisable as of March 31, 2019.

**Non-vested RSUs**

Non-vested RSUs were awarded to employees under our equity incentive plans. Non-vested RSUs do not have the voting rights of common stock and the shares underlying non-vested RSUs are not considered issued and outstanding. Non-vested RSUs generally vest over a service period of one to four years. The compensation expense incurred for these service-based awards is based on the closing market price of our stock on the date of grant and is amortized on a graded vesting basis over the requisite service period.

Non-vested RSU activity during the three months ended March 31, 2019 is summarized below (shares in thousands):

	Time-based		Performance-based		Market-based		Total	
	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value	Shares	Weighted average grant date fair value
<b>Non-vested at January 1, 2019</b>	1,385	\$ 32.59	1,466	\$ 34.18	70	\$ 26.67	2,921	\$ 33.25
Granted	125	27.22	549	27.22	—	—	674	27.22
Vested	(169)	28.44	(170)	28.65	—	—	(339)	28.55
Forfeited	(18)	33.51	(466)	35.47	—	—	(484)	35.40
<b>Non-vested at March 31, 2019</b>	<u>1,323</u>	<u>32.60</u>	<u>1,379</u>	<u>31.66</u>	<u>70</u>	<u>26.67</u>	<u>2,772</u>	<u>31.98</u>

If the transaction with an affiliate of Siris is completed (See Note 2 – Business Acquisitions), time-based non-vested RSUs that are scheduled to vest within twelve months of the closing date of the transaction will be accelerated and paid in cash at \$37.00 per share upon the closing. Unvested performance-based RSUs measured on 2019 performance metrics will continue to vest and will be paid out in cash in 2020 if the 2019 performance metrics are met. Time-based awards vesting more than twelve months from the closing date of the transaction will be converted to cash and will continue to vest under the original vesting schedule. Unvested performance-based RSUs vesting after 2019 will be converted to time-based awards as if 100% targeted performance metrics were achieved, and will vest and be paid in cash consistent with the original performance periods.

**Vested RSUs**

The grant date fair value of RSUs vested during the three months ended March 31, 2019 was \$9.7 million. The aggregate intrinsic value of RSUs vested and expected to vest as of March 31, 2019 was \$39.7 million and the remaining weighted average vesting period was 0.92 years. Aggregate intrinsic value for RSUs vested and expected to vest represents the closing market price per share of our common stock on the last trading day of the period, multiplied by the number of RSUs vested and expected to vest as of March 31, 2019. RSUs expected to vest represent time-based RSUs unvested and outstanding as of March 31, 2019, and performance-based RSUs for which the requisite service period has not been rendered, but are expected to vest based on the estimated achievement of performance conditions. Performance-based RSUs are expensed based on estimated performance results and as service criteria are met.

**Valuation Assumptions for Performance-based and Market-based RSUs**

Stock options and market-based RSUs were not granted during the three months ended March 31, 2019. We use the BSM option pricing model to value performance-based RSUs. The weighted average grant date fair value per share of performance-based RSUs granted and the assumptions used to estimate grant date fair value are as follows:

<b>Performance-Based RSUs Granted</b>	<b>Short-term</b>		<b>Long-term</b>	
<b>Three Months Ended March 31, 2019</b>				
Grant date fair value per share	\$	27.22	\$	—
Service period (years)		1.0		N/A
<b>Three Months Ended March 31, 2018</b>				
Grant date fair value per share	\$	28.59	\$	—
Service period (years)		1.0		N/A

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Our performance-based RSUs generally vest when specified performance criteria are met; otherwise, they are forfeited.

The grant date fair value per share determined in accordance with the BSM valuation model is being amortized over the service period of the performance-based awards. The probability of achieving the performance criteria was determined based on review of the actual results achieved and forecasted financial performance for the remaining performance measurement period. Stock-based compensation expense is adjusted based on the updated fair value resulting from this probability assessment for each reporting period.

Market-based awards that were granted in prior periods vest when our average closing stock price exceeds defined multiples of the closing stock price for 90 consecutive trading days. If these multiples are not achieved by the expiration date, the awards are forfeited. The grant date fair value is amortized over the average derived service period of the awards. The average derived service period and total fair value were determined using a Monte Carlo valuation model based on our assumptions, which include a risk-free interest rate and implied volatility.

**Note 15. Restructuring and Other**

Restructuring and Other (in thousands)	Three Months Ended March 31,	
	2019	2018
<b>Beginning reserve balance</b>	\$ 1,971	\$ 2,452
Restructuring charges	1,014	2,916
Other charges	1,402	1,738
Non-cash restructuring and other	(302)	(173)
Payments	(2,475)	(3,102)
<b>Ending reserve balance</b>	<u>\$ 1,610</u>	<u>\$ 3,831</u>

During the three months ended March 31, 2019 and 2018, we continued to analyze and re-align our cost structure. These charges primarily relate to integrating recently acquired businesses, consolidating facilities, eliminating redundancies, and lowering our operating expenses. Restructuring and other consists primarily of restructuring, severance, short-term retention costs, facility downsizing and relocation, and acquisition integration expenses.

Restructuring and other costs were \$2.4 and \$4.7 million during the three months ended March 31, 2019 and 2018, respectively. Restructuring and other costs include severance charges of \$1.3 million related to reductions in head count of 33 during the three months ended March 31, 2019; and \$3.0 million related to reductions in head count of 55 during the three months ended March 31, 2018. Severance costs include severance payments, retention payments, related employee benefits, outplacement fees, recruiting, and employee relocation costs.

Facilities relocation and downsizing expenses were \$0.2 and \$0.5 million during the three months ended March 31, 2019 and 2018, respectively. These expenses were primarily related to the relocation of certain manufacturing and administrative locations due to reduced space requirements. Integration expenses of \$1.0 and \$1.1 million during the three months ended March 31, 2019 and 2018, respectively, were incurred for the integration of our business acquisitions.

**Note 16. Income Taxes**

We recognized a tax provision of \$0.2 million on pretax loss of \$18.5 million during the three months ended March 31, 2019; and a tax benefit of \$2.1 million on pretax loss of \$5.7 million during the three months ended March 31, 2018. The provision for (benefit from) income taxes before discrete items reflected in the table below was a provision of \$22 thousand during the three months ended March 31, 2019, and a benefit of \$3.5 million during the three months ended March 31, 2018. The increase in the provision for income taxes before discrete items for the three months ended March 31, 2019, compared with the same period in the prior year, was primarily due to a decreased expected tax rate applied to pre-tax losses.

Primary differences between our provision for income taxes before discrete items and the income tax provision at the U.S. statutory rate include taxes on permanently reinvested foreign earnings, the tax effects of stock-based compensation expense which are non-deductible for tax purposes, and the U.S. Research and Development Credit.

**Electronics For Imaging, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Continued)**

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Provision for Income Taxes Before Discrete Items</b> (in thousands)		
<b>Provision for (benefit from) income taxes before discrete items</b>	\$ 22	\$ (3,456)
Interest related to unrecognized tax benefits	98	112
Provision for (benefit from) stock-based compensation, including ESPP dispositions	32	(24)
Benefit from reversals of uncertain tax positions	—	(150)
Provision for reassessment of taxes upon tax law change	—	161
Provision for deemed repatriation transition tax	—	1,222
<b>Provision (benefit) for income taxes</b>	<b>\$ 152</b>	<b>\$ (2,135)</b>

The SEC issued SAB 118, which allowed us to record a provisional estimate of the income tax effects of the 2017 Tax Act in the period in which we could make a reasonable estimate of its effects. Subsequent to the initial \$27.5 million tax charge in the year ended December 31, 2017 as a provisional estimate, we accrued \$1.2 million for state taxes as an additional provisional estimate in the three months ended March 31, 2018.

As of March 31, 2019, and December 31, 2018, gross unrecognized benefits that would impact the effective tax rate if recognized were \$33.4 and \$31.7 million, respectively. Over the next twelve months, our existing tax positions will continue to generate increased liabilities for unrecognized tax benefits. It is reasonably possible that our gross unrecognized tax benefits will decrease up to \$6.5 million in the next twelve months. These adjustments, if recognized, would positively impact our effective tax rate, and would be recognized as additional tax benefits in our Condensed Consolidated Statements of Operations. \$17.6 million of gross unrecognized tax benefits were offset against deferred tax assets as of March 31, 2019, and the remaining \$15.8 million has been recorded as noncurrent income taxes payable.

We are subject to examination by the Internal Revenue Service (“IRS”) for the 2015-2017 tax years, state tax jurisdictions for the 2014-2017 tax years, the Netherlands tax authority for the 2014-2017 tax years, the Spanish tax authority for the 2014-2017 tax years, the Israel tax authority for the 2015-2017 tax years, and the Italian tax authority for the 2014-2017 tax years.

## **Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-looking Statements**

*This Quarterly Report on Form 10-Q (“Report”), including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements regarding future events and the future results of the Company that are based on current expectations, estimates, forecasts, and projections about the industry in which the Company operates and the beliefs and assumptions of the management of the Company. Words such as “address,” “anticipate,” “believe,” “consider,” “continue,” “develop,” “estimate,” “expect,” “further,” “goal,” “intend,” “may,” “plan,” “potential,” “project,” “seek,” “should,” “target,” “will,” variations of such words, and similar expressions are intended to identify such forward-looking statements. Such statements reflect the current views of the Company and its management with respect to future events and are subject to certain risks, uncertainties, and assumptions. Potential risks and uncertainties include, but are not necessarily limited to, the pending completion of the acquisition of the Company by an affiliate of Siris; intense competition in each of our businesses, including competition from products developed by EFI’s customers; the uncertainty of the outcome of the pending securities lawsuits against EFI; unforeseen expenses; fluctuations in currency exchange rates; the difficulty of aligning expense levels with revenue; management’s ability to forecast revenues, expenses and earnings; our ability to successfully integrate acquired businesses; changes in the mix of products sold; the uncertainty of market acceptance of new product introductions; the challenge of managing asset levels, including inventory and variations in inventory levels; the uncertainty of continued success in technological advances; the challenges of obtaining timely, efficient and quality product manufacturing and supply of components; any world-wide financial and economic difficulties and downturns; adverse tax-related matters such as tax audits, changes in our effective tax rate or new tax legislative proposals; the unpredictability of development schedules and commercialization of products by the leading printer manufacturers and declines or delays in demand for our related products; the impact of changing consumer preferences on demand for our textile products; litigation involving intellectual property rights or other related matters; the market prices of EFI’s common stock prior to, during and after the share repurchases; and any other risk factors that may be included from time to time in the Company’s SEC reports.*

*Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company’s actual results, performance, or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled “Risk Factors” in Item 1A of Part II of this report and Item 1A of Part I of our 2018 Form 10-K and elsewhere and in other reports the Company files with the SEC. The following discussion should be read in conjunction with our 2018 Form 10-K and with the condensed consolidated financial statements and notes thereto included elsewhere in this Report. The Company assumes no obligation to revise or update these forward-looking statements to reflect actual results, events, or changes in factors or assumptions affecting such forward-looking statements*

### **Business Overview**

We are a world leader in customer-centric digital printing innovation focused on the transformation of the printing, packaging, ceramic tile decoration, and textile industries from the use of traditional analog based printing to digital on-demand printing.

Our products include display graphics, corrugated packaging and display, textile, and ceramic tile decoration industrial digital inkjet printers that utilize our digital ink, industrial digital inkjet printer parts, and professional services; print production workflow, web-to-print, cross-media marketing, fashion design, and business process automation solutions; and color printing DFEs creating an on-demand digital printing ecosystem. Our ink includes digital UV curable, LED curable, ceramic, water-based, and thermoforming and specialty ink, as well as a variety of textile inks including dye sublimation, pigmented, reactive dye, acid dye, pure disperse dye, water-based dispersed printing ink, and coatings. Our business process automation solutions are integrated from creation to print and are vertically integrated with our industrial digital inkjet printers and products produced by the leading production digital color page printer manufacturers that are driven by our Fiery DFEs.

### **Proposed Acquisition**

On April 14, 2019, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with East Private Holdings II, LLC, (“Parent”) and East Merger Sub, Inc., a wholly owned subsidiary of Parent (“Merger Sub”), providing for the merger of Merger Sub with and into the Company (the “Merger”), with the Company continuing as the surviving company of the Merger and a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of the Siris Funds (as defined below). The all-cash transaction is valued at approximately \$1.7 billion.

Subject to the terms and conditions set forth in the Merger Agreement, each share of the Company’s common stock outstanding immediately prior to the Merger will automatically be cancelled, extinguished and converted into the right to receive \$37.00 per share in cash, without interest, and less any applicable withholding taxes (the “Merger Consideration”), (other than shares held by (a) the

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Company as treasury stock, (b) owned by the Parent or Merger Sub, (c) owned by any direct or wholly owned subsidiary of the Company, or (d) stockholders of the Company who properly exercised their appraisal rights under the General Corporation Law of the State of Delaware.

Completion of the Merger is subject to the satisfaction of several conditions, including: (i) adoption of the Merger Agreement by the requisite vote of the Company's stockholders; (ii) completion of the Go-Shop Period; and (iii) certain other customary conditions. Please see Note 2 – Business Acquisitions for further discussion of this proposed transaction and the potential impacts on the Company.

#### Acquisition of BDR Boya Kimya San.Tic. A.S.

On May 3, 2019, we acquired BDR Boya Kimya San.Tic. A.S. ("BDR"), a digital textile ink development and manufacturing company based in Turkey. BDR will expand the Company's digital textile ink offerings as well as providing a low-cost manufacturing facility for ink.

#### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions, and estimates that affect the amounts reported. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes there have been no significant changes during the three months ended March 31, 2019 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2018 Form 10-K.

#### Results of Operations

##### Overview

	Three Months Ended March 31,			
	2019	2018	Change	
			Amount	Percent
<b>Revenue</b>	\$ 223,715	\$ 239,866	\$ (16,151)	(7)%
Cost of revenue	113,896	120,759	(6,863)	(6)
<b>Gross profit</b>	109,819	119,107	(9,288)	(8)
Operating expenses:				
Research and development	39,737	38,279	1,458	4
Sales and marketing	45,871	46,680	(809)	(2)
General and administrative	24,982	19,421	5,561	29
Amortization of identified intangibles	9,978	12,138	(2,160)	(18)
Restructuring and other	2,416	4,654	(2,238)	(48)
Total operating expenses	122,984	121,172	1,812	1
<b>Loss from operations</b>	(13,165)	(2,065)	(11,100)	*
Interest expense	(6,918)	(4,954)	(1,964)	40
Interest and other income, net	1,572	1,289	283	22
<b>Loss before income taxes</b>	(18,511)	(5,730)	(12,781)	*
Provision (benefit) for income taxes	152	(2,135)	2,287	*
<b>Net loss</b>	\$ (18,663)	\$ (3,595)	\$ (15,068)	*

\* Percentage not meaningful.



Key financial results during the three months ended March 31, 2019 and 2018 were as follows:

- Our consolidated revenue decreased by \$16.2 million, or 7% during the three months ended March 31, 2019, compared to the same period in the prior year. The decrease was primarily driven by an \$11.8 million decrease in Industrial Inkjet revenue and a \$4.3 million decrease in Productivity Software revenue.
- Gross profit decreased by \$9.3 million or 8% during the three months ended March 31, 2019 compared to the same period in the prior year. The reduction in gross profit was primarily due to lower revenue. Gross profit percentage declined to 49.1% from 49.7% during the three months ended March 31, 2019 compared to the same period in the prior year. The reduction in gross profit percentage was primarily due to changes in product mix. In addition, Industrial Inkjet gross margins in the 2019 period were lower than the comparable 2018 period primarily due to higher raw materials costs for ink components.
- Operating expenses increased by \$1.8 million or 1% during the three months ended March 31, 2019 compared to the same period in the prior year. The increase in operating expenses was primarily due to a \$5.6 million increase in general and administrative expenses driven by changes in the estimated fair value of contingent consideration on previous acquisitions, and a \$1.5 million increase in research and development expenses due to costs incurred in the development of new products. These increases were partially offset by decreased restructuring and other expense of \$2.2 million and a decrease in amortization of identified intangibles of \$2.2 million.
- Interest expense increased by \$2.0 million or 40% during the three months ended March 31, 2019 compared to the same period in 2018 due to interest on the convertible debt we issued in November 2018.
- Provision for income taxes increased by \$2.3 million during the three months ended March 31, 2019 compared to the same period last year, primarily due to the impact of the decreased expected tax rate in 2019 applied to pre-tax losses.

The following table presents items on our Condensed Consolidated Statements of Operations as percentages of total revenue:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	100.0 %	100.0 %
<b>Gross profit</b>	49.1	49.7
<b>Operating expenses:</b>		
Research and development	17.8	16.0
Sales and marketing	20.5	19.4
General and administrative	11.2	8.1
Amortization of identified intangibles	4.5	5.1
Restructuring and other	1.1	1.9
Total operating expenses	55.1	50.5
<b>Loss from operations</b>	(6.0)	(0.8)
Interest expense	(3.1)	(2.1)
Interest and other income, net	0.7	0.5
<b>Loss before income taxes</b>	(8.4)	(2.4)
Provision (benefit) for income taxes	0.1	(0.9)
<b>Net loss</b>	(8.3)%	(1.5)%

**Revenue**

We classify our revenue and gross profit in accordance with our three operating segments; Industrial Inkjet, Productivity Software, and Fiery, as described in Note 4 – Segment Information of our Notes to Condensed Consolidated Financial Statements.

**Revenue by Operating Segment**

Our revenue by operating segment was as follows (in thousands):

	Three Months Ended March 31,				Change	
	2019	% of total	2018	% of total	Amount	Percent
Industrial Inkjet	\$ 130,423	58%	\$ 142,209	59%	\$ (11,786)	(8)%
Productivity Software	39,512	18	43,775	18	(4,263)	(10)
Fiery	53,780	24	53,882	23	(102)	—
<b>Total revenue</b>	<b>\$ 223,715</b>	<b>100%</b>	<b>\$ 239,866</b>	<b>100%</b>	<b>\$ (16,151)</b>	<b>(7)%</b>

**Industrial Inkjet.** Industrial Inkjet revenue decreased by \$11.8 million, or 8% during the three months ended March 31, 2019 compared with the same period in 2018, primarily due to a reduction in sales volume of printers.

**Productivity Software.** Productivity Software revenue decreased by \$4.3 million, or 10% during the three months ended March 31, 2019 compared with the same period in 2018. Productivity software revenue decreased primarily due to lower license subscription and maintenance revenues. Revenue from services was flat in the comparative periods.

**Fiery.** Fiery revenue was essentially flat during the three months ended March 31, 2019 compared with the same period in 2018.

**Revenue by Geographic Area**

We report revenue by geographic region based on ship-to destination, summarized as follows (in thousands):

	Three Months Ended March 31,				Change	
	2019	% of total	2018	% of total	Amount	Percent
Americas	\$ 104,569	47%	\$ 117,385	49%	\$ (12,816)	(11)%
EMEA	91,159	41	88,175	37	2,984	3
APAC	27,987	12	34,306	14	(6,319)	(18)
<b>Total revenue</b>	<b>\$ 223,715</b>	<b>100%</b>	<b>\$ 239,866</b>	<b>100%</b>	<b>\$ (16,151)</b>	<b>(7)%</b>

**Americas.** Revenue decreased by \$12.8 million, or 11%, during the three months ended March 31, 2019 compared with the same period in 2018, driven by lower sales volume in all segments.

**EMEA.** Revenue increased by \$3.0 million, or 3%, during the three months ended March 31, 2019 compared with the same period in 2018, driven primarily by increased Industrial Inkjet sales of corrugated and ceramic products, partially offset by lower Productivity Software sales.

**APAC.** Revenue decreased by \$6.3 million, or 18% during the three months ended March 31, 2019 compared with the same period in 2018, driven primarily by lower Industrial Inkjet sales, partially offset by increased Fiery revenues.

**Revenue Concentration**

We have a direct relationship with several leading printer manufacturers and work closely to design, develop, and integrate Fiery technology into their print engines. A significant portion of our revenue is, and has been, generated by sales of our Fiery DFE products to a relatively small number of leading printer manufacturers. During the three months ended March 31, 2019 and 2018, no customer individually accounted for 10% or more of our consolidated revenue. We expect that if we continue to increase our revenue in the Industrial Inkjet and Productivity Software operating segments in the future, the percentage of our revenue from the leading printer manufacturer customers will continue to decrease over time.

**Gross Profit**

Gross profit by operating segment, excluding stock-based compensation expense, was as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Industrial Inkjet</b>		
Revenue	\$ 130,423	\$ 142,209
Gross profit	44,312	49,707
Gross profit percentage	34.0%	35.0%
<b>Productivity Software</b>		
Revenue	\$ 39,512	\$ 43,775
Gross profit	28,333	31,413
Gross profit percentage	71.7%	71.8%
<b>Fiery</b>		
Revenue	\$ 53,780	\$ 53,882
Gross profit	37,959	38,755
Gross profit percentage	70.6%	71.9%

A reconciliation of our segment gross profit to our Condensed Consolidated Statements of Operations is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Segment gross profit	\$ 110,604	\$ 119,875
Stock-based compensation expense	(785)	(768)
Gross profit	\$ 109,819	\$ 119,107
Consolidated gross profit percentage	49.1%	49.7%

Our consolidated gross profit percentage decreased to 49.1% during the three months ended March 31, 2019, from 49.7% during the same period in 2018. The decreased gross profit percentage was primarily due to the lower gross profit percentages in our Industrial Inkjet and Fiery segments.

**Industrial Inkjet Gross Profit.** The Industrial Inkjet gross profit percentage decreased to 34.0% during the three months ended March 31, 2019, from 35.0% during the same period in 2018. The decrease in segment gross profit percentage was driven primarily by lower margins on Ink sales due to increases in raw material costs.

**Productivity Software Gross Profit.** The Productivity Software gross profit percentage during the three months ended March 31, 2019 was comparable to the same period in 2018.

**Fiery Gross Profit.** The Fiery gross profit percentage decreased to 70.6% during the three months ended March 31, 2019, from 71.9% during the same period in 2018. The decrease in segment gross profit percentage was primarily due to changes in product mix.

**Operating Expenses**

Operating expenses were as follows (in thousands):

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>Change</b>	
			<b>Amount</b>	<b>Percent</b>
Research and development	\$ 39,737	\$ 38,279	\$ 1,458	4 %
Sales and marketing	45,871	46,680	(809)	(2)
General and administrative	24,982	19,421	5,561	29
Amortization of identified intangibles	9,978	12,138	(2,160)	(18)
Restructuring and other	2,416	4,654	(2,238)	(48)
<b>Total operating expenses</b>	<b>\$ 122,984</b>	<b>\$ 121,172</b>	<b>\$ 1,812</b>	<b>1 %</b>

Operating expenses increased by \$1.8 million, or 1% during the three months ended March 31, 2019 compared to the same period in 2018. The increase in operating expenses was primarily due to increased general and administrative expense of \$5.6 million and increased research and development expenses of \$1.5 million, partially offset by reduced restructuring and other expense of \$2.2 million, a decrease in amortization of identified intangibles of \$2.2 million, and lower sales and marketing expense of \$0.8 million.

Movement in foreign currency exchange rates decreased operating expenses by \$3.5 million in the three months ended March 31, 2019, compared to the exchange rates in effect in the same periods in 2018. We expect our operating expenses will continue to fluctuate as a result of movements in U.S. dollar exchange rates versus the Euro, British pound sterling, Brazilian real, Israeli shekel, Chinese renminbi, Indian rupee and other currencies, because we incur significant operating expenses denominated in these currencies.

**Research and Development ("R&D").** R&D expenses include personnel, consulting, travel, research and development facilities, prototype materials, testing and development equipment, and non-recurring engineering expenses. R&D expense during the three months ended March 31, 2019 was \$39.7 million, or 17.8% of revenue, compared to \$38.3 million, or 16.0% of revenue, during the same period in 2018. The increase of \$1.5 million, or 4%, was primarily driven by an increase in stock-based compensation expense of \$0.7 million in the current year period and the non-recurrence of a \$1.0 million European government research and development grant received in the prior year.

**Sales and Marketing.** Sales and marketing expenses include personnel, trade shows, marketing programs and promotional materials, sales commissions, travel and entertainment, depreciation, and worldwide sales office expenses. Sales and marketing expense during the three months ended March 31, 2019 was \$45.9 million, or 20.5% of revenue, compared to \$46.7 million, or 19.4% of revenue, during the same period in 2018. The decrease of \$0.8 million, or 2% was primarily driven by a decrease of \$0.7 million in trade show costs and an \$0.8 million reduction in commissions due to lower sales volumes, partially offset by increased travel expenses of \$0.4 million.

**General and Administrative ("G&A").** G&A expenses consist primarily of finance, human resources, legal, bad debts, and litigation expenses, as well as changes in the estimated fair value of earnout liabilities. G&A expenses during the three months ended March 31, 2019 were \$25.0 million, or 11.2% of revenue, compared to \$19.4 million, or 8.1% of revenue, during the same period in 2018. The increase of \$5.6 million, or 29% was primarily due to a change in adjustment to fair value of contingent consideration of \$3.4 million and an increase in stock-based compensation of \$1.8 million. We recognized a \$2.0 million increase in estimated fair value of contingent consideration related to the 2017 acquisition of Generation Digital during the three months ended March 31, 2019 compared to a \$1.5 million reduction in the estimated fair value of contingent consideration primarily related to the 2015 acquisition of Shuttleworth recognized during the three months ended March 31, 2018.

**Stock-based Compensation.** We amortize stock-based compensation cost on a graded vesting basis over the vesting period, after assessing the probability of achieving requisite performance criteria with respect to performance-based and market-based awards. Stock-based compensation cost is recognized over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. This results in the recognition of greater stock-based compensation expense during the initial years of the vesting period.

Stock-based compensation expense was \$9.3 and \$6.8 million during the three months ended March 31, 2019 and 2018, respectively, an increase of \$2.5 million in the current year period. Stock-based compensation expense increased primarily due to the timing of the annual equity grants and increased vesting probabilities of certain performance-based awards compared to the same period in 2018.

**Amortization of Identified Intangibles.** Amortization of identified intangibles during the three months ended March 31, 2019 was \$10.0 million compared to \$12.1 million during the same period in 2018, a decrease of \$2.2 million, or 18%, due to certain intangible assets from prior year acquisitions becoming fully amortized.

**Restructuring and Other.** Restructuring and other costs were \$2.4 million and \$4.7 million during the three months ended March 31, 2019 and 2018, respectively. Restructuring and other costs included severance charges of \$1.3 and \$3.0 million related to reductions in head count of 33 and 55 during the three months ended March 31, 2019 and 2018, respectively. Costs of integration of acquired businesses were \$1.0 and \$1.1 million during the three months ended March 31, 2019 and 2018. Facilities relocation and downsizing expenses were \$0.2 and \$0.5 million during the three months ended March 31, 2019 and 2018.

**Interest Expense.** Interest expense during the three months ended March 31, 2019 and 2018 was \$6.9 and \$5.0 million, respectively. The increase in 2019 is due to interest recognized on the 2023 Notes issued in November 2018.

**Interest and Other Income, Net.** Interest and other income, net, includes interest income on our cash equivalents and short-term investments, gains and losses from sales of our cash equivalents and short-term investments, imputed interest income on revenue contracts with a significant financing component, and net foreign currency exchange gains and losses. Interest and other income, net was income of \$1.6 million during the three months ended March 31, 2019, compared to income of \$1.3 million during the same period in 2017. The increase was due to an increase of \$1.0 million in interest income due to higher invested balances and higher interest rates applicable to our cash balances and an increase of \$0.3 million in other income (expense), partially offset by a \$1.1 million increase in foreign currency losses.

**Income (Loss) Before Income Taxes.** The geographic mix of income (loss) before income taxes was as follows (in thousands):

Income (Loss) Before Income Taxes	Three Months Ended March 31,	
	2019	2018
U.S.	\$ (19,087)	\$ (12,297)
Foreign	576	6,567
<b>Total</b>	<b>\$ (18,511)</b>	<b>\$ (5,730)</b>

During the three months ended March 31, 2019, pretax loss of \$18.5 million consisted of U.S. pretax loss of \$19.1 million and foreign pretax income of \$0.6 million, respectively. Pretax loss attributable to U.S. operations included stock-based compensation expense of \$9.3 million, interest expense of \$6.9 million, amortization of identified intangible assets of \$2.4 million, a change in the estimated fair value of contingent consideration of \$2.0 million, and restructuring and other of \$1.2 million. Pretax income attributable to foreign operations included amortization of identified intangible assets of \$7.6 million and restructuring and other of \$1.2 million. The exclusion of these items from pretax loss would have resulted in U.S. and foreign pretax income of \$2.7 and \$9.4 million, respectively, during the three months ended March 31, 2019.

During the three months ended March 31, 2018, pretax loss of \$5.7 million consisted of U.S. pretax loss of \$12.3 million and foreign pretax income of \$6.6 million, respectively. Pretax loss attributable to U.S. operations included amortization of identified intangible assets of \$3.1 million, stock-based compensation expenses of \$6.8 million, restructuring and other of \$3.3 million, change in contingent consideration of \$1.1 million, acquisition-related costs of \$0.7 million, and interest expense of \$5.0 million. Pretax loss attributable to foreign operations included amortization of identified intangible assets of \$9.0 million, restructuring and other of \$1.4 million, change in contingent consideration of \$0.4 million, and earnout interest accretion of \$0.2 million. The exclusion of these items from pretax loss would have resulted in U.S. and foreign pretax income of \$12.5 and \$9.7 million, respectively, during the three months ended March 31, 2018.

**Provision (Benefit) For Income Taxes**

	Three Months Ended March 31,	
	2019	2018
Loss before income taxes	\$ (18,511)	\$ (5,730)
Provision (benefit) for income taxes	152	(2,135)
Effective income tax rate	(0.8)%	37.3%

Our tax provision has increased during the three months ended March 31, 2019 compared to the same periods in 2018, primarily due to the impact of the decreased expected tax rate in 2019 applied to pre-tax losses.

## Liquidity and Capital Resources

### Overview

Cash, cash equivalents, restricted cash equivalents, and short-term investments decreased by \$23.2 million to \$428.1 million as of March 31, 2019, from \$451.2 million as of December 31, 2018. The decrease was primarily due to an increase in working capital including increased inventories and other current assets, as well as reduced accounts payable. During the three months ended March 31, 2019 we liquidated our portfolio of short-term investments.

(in thousands)	March 31, 2019	December 31, 2018	Change
Cash and cash equivalents	\$ 388,246	\$ 309,052	\$ 79,194
Restricted cash equivalents	39,809	39,809	—
Short-term investments	—	102,349	(102,349)
<b>Total cash, cash equivalents, restricted cash equivalents, and short-term investments</b>	<b>\$ 428,055</b>	<b>\$ 451,210</b>	<b>\$ (23,155)</b>

Cash flow activities are summarized as follows:

(in thousands)	Three Months Ended March 31,		Change
	2019	2018	
Net cash provided by (used in) operating activities	\$ (18,876)	\$ 6,293	\$ (25,169)
Net cash provided by investing activities	99,295	2,852	96,443
Net cash used in financing activities	(1,405)	(13,543)	12,138
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash equivalents	180	332	(152)
<b>Increase (decrease) in cash, cash equivalents, and restricted cash equivalents</b>	<b>\$ 79,194</b>	<b>\$ (4,066)</b>	<b>\$ 83,260</b>

Cash, cash equivalents, restricted cash equivalents, and short-term investments held outside of the U.S. in various foreign subsidiaries were \$124.6 and \$155.6 million as of March 31, 2019, and December 31, 2018, respectively. Management anticipates using these foreign funds for local operations and to finance international acquisitions.

Based on past performance and current expectations, we believe that our cash, cash equivalents, short-term investments, and cash generated from operating activities will satisfy our working capital, capital expenditure, investment, commitments (see Note 12 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements), and other liquidity requirements associated with our existing operations through at least the next twelve months. We believe that the most strategic uses of our cash resources include business acquisitions, strategic investments to gain access to new technologies, and working capital.

### Operating Activities

Net cash used in operating activities was \$18.9 million in the three months ended March 31, 2019, consisting primarily of net loss of \$18.7 million, net change in operating assets and liabilities of \$24.5 million, and deferred taxes of \$11.7 million. These cash outflows were partially offset by non-cash expenses including \$17.2 million of depreciation and amortization, \$9.3 million of stock-based compensation, \$4.8 million of non-cash accretion of interest expense on convertible notes, \$2.4 million provision for inventory obsolescence, and the change in fair value of contingent consideration of \$2.0 million. The net change in operating assets and liabilities of \$24.5 million consisted primarily of increases in inventories and other current assets, and decreases in accounts payable and accrued liabilities, partially offset by changes in income taxes receivable and payable.

Net cash provided by operating activities was \$6.3 million in the three months ended March 31, 2018, consisting primarily of net loss of \$3.6 million and net change in operating assets and liabilities of \$29.0 million, offset by non-cash expenses including depreciation and amortization of \$17.1 million, deferred taxes of \$10.6 million, stock-based compensation expense \$6.8 million, and non-cash accretion of interest expense on convertible notes of \$3.8 million. The net change in operating assets and liabilities of \$29.0 million consisted primarily of increases in accounts receivable, other current assets, and income taxes payable and receivable, partially offset by reductions in inventories and accounts payable and accrued liabilities.

**Accounts Receivable.** Our primary source of operating cash flow is the collection of accounts receivable from our customers. One measure of the effectiveness of our collection efforts is average days sales outstanding for accounts receivable (“DSO”). DSOs were 97 and 87 days as of March 31, 2019 and December 31, 2018, respectively. We calculate DSO by dividing net accounts receivable at the end of the quarter by revenue recognized during the quarter, multiplied by the total days in the quarter.

DSOs increased significantly during the three months ended March 31, 2019, compared with December 31, 2018, primarily due to extended payment terms granted on a greater proportion of our sales transactions and lower revenue in the current quarter versus the prior quarter. We expect DSOs to vary from period to period because of changes in the mix of business between direct customers and leading printer manufacturers, the effectiveness of our collection efforts both domestically and overseas, market conditions and credit terms offered by our competitors, and variations in the linearity of our sales. As the percentage of Industrial Inkjet and Productivity Software related revenue increases, we expect DSOs may trend higher.

**Inventories.** Our inventories are procured primarily in support of the Industrial Inkjet and Fiery operating segments. The majority of our Industrial Inkjet products are manufactured internally, while Fiery production is primarily outsourced. The result is lower inventory turnover for Industrial Inkjet inventories compared with Fiery inventories.

Our inventories increased by \$7.5 million to \$141.9 million as of March 31, 2019 from \$134.3 million as of December 31, 2018, primarily due to an increase in Industrial Inkjet inventories. Inventory turnover was 3.2 turns for the quarter ended March 31, 2019 compared with 3.9 turns during the quarter ended December 31, 2018 and 3.9 turns in the quarter ended March 31, 2018. We calculate inventory turnover by dividing annualized current quarter cost of revenue by ending inventories.

#### **Investing Activities**

**Acquisitions.** We did not make any business acquisitions in the three months ended March 31, 2019 and 2018.

**Investments.** Proceeds from sales and maturities of marketable securities, net of purchases, were \$102.0 and \$7.3 million during the three months ended March 31, 2019 and 2018, respectively. In the first quarter of 2019, we liquidated our portfolio of short-term investments and deposited the proceeds in interest bearing bank accounts. We previously classified our investment portfolio as “available for sale.” Our investments are made with a policy of capital preservation and liquidity as primary objectives.

**Property and Equipment, Net.** Our property and equipment additions have historically been funded with cash flows from operating activities. Net cash payments for purchases of property and equipment were \$2.7 and \$4.2 million during the three months ended March 31, 2019 and 2018, respectively. During the three months ended March 31, 2019, we also transferred \$4.9 million of equipment from inventories to property and equipment, net, which we then leased to customers under operating leases. See also Note 6 – Supplemental Financial Statement Information of the Notes to Condensed Consolidated Financial Statements for additional information about purchases of property and equipment.

#### **Financing Activities**

**Proceeds from Issuance of Common Stock.** Historically, our recurring cash flows provided by financing activities have included receipt of cash from the issuance of common stock through the exercise of stock options and employee purchases of ESPP shares. We received proceeds from the issuance of common stock of \$4.8 and \$5.0 million during the three months ended March 31, 2019 and 2018, respectively. While we may continue to receive proceeds from these plans in future periods, the timing and amount of such proceeds are difficult to predict and are contingent on certain factors including the price of our common stock, the timing and number of stock options exercised, net settlement options, employee participation in our ESPP, and general market conditions.

**Purchases of Treasury Stock and Net Share Settlements.** During the three months ended March 31, 2019 and 2018 purchases of treasury stock and net share settlements were \$2.5 and \$17.6 million, respectively. Such amounts included \$2.5 and \$0.2 million used for net settlement of shares for the tax withholding obligations that arose on the vesting of RSUs during the three months ended March 31, 2019 and 2018, respectively.

On September 11, 2017, the board of directors approved a repurchase authorization of \$153.8 million of our common stock. This authorization expired December 31, 2018. Under this publicly announced plan, we repurchased 606,892 shares for an aggregate purchase price of \$17.4 million during the three months ended March 31, 2018. We did not purchase any treasury stock during the three months ended March 31, 2019. As of December 31, 2018 there was no remaining authorized amount for repurchases under this program.

**Repayment of Acquisition-Related Debt.** We paid \$1.4 and \$0.3 million of acquisition-related debt during the three months ended March 31, 2019 and 2018, respectively.

**Contingent consideration payments.** Earnout payments during the three months ended March 31, 2019 were \$2.3 million, consisting of payments related to previously accrued contingent consideration liabilities for our acquisition of Escada. Earnout payments during the three months ended March 31, 2018 were \$0.7 million, primarily related to previously accrued contingent consideration liabilities for our acquisition of Shuttleworth.

**Convertible Senior Notes.** In September 2014, we issued \$345.0 million principal amount of 0.75% Convertible Senior Notes. See additional discussion in Note 10 – Debt. The 2019 Notes mature on September 1, 2019. Our intent is to settle the principal amount of the Notes in cash. The cash payment of the principal amount representing the original proceeds received will be presented as a financing cash outflow while the original discount portion will be presented as an operating cash outflow on our Statement of Cash Flows. If the proposed transaction with an affiliate of Siris is completed (See Note 2 – Business Acquisitions ) prior to the maturity date of the 2019 Notes, we will be required to repay the principal amount of the 2019 Notes, as well as a make-whole amount, in cash at the closing date of the transaction with an affiliate of Siris. Under the terms of the 2019 Notes, we estimate the total cash payment would be approximately \$345.0 million plus \$4.6 million for the repurchase of the warrants we sold in conjunction with the issuance of this debt.

In November 2018, we issued \$150.0 million aggregate principal amount of 2.25% convertible senior notes. See additional discussion in Note 10 – Debt. The 2023 Notes will mature on November 15, 2023. If the proposed transaction with an affiliate of Siris is completed (See Note 2 – Business Acquisitions ), we will be required to repay the principal amount of the 2023 Notes, plus the cash value of any share price in excess of the initial conversion price, plus a make-whole payment in cash for the early redemption, on the closing date of the transaction with an affiliate of Siris. Under the terms of the 2023 Notes, we estimate the total cash payment would be approximately \$179.1 million.

**Revolving Credit Facility.** On January 2, 2019, we entered into a 5-year \$150.0 million revolving credit agreement with an option for an additional \$50.0 million, subject to certain requirements. Interest is variable with a premium applied to an index rate. This credit facility is secured by substantially all of our domestic assets and the pledge of 65% of the stock of our foreign subsidiaries. See Note 10 – Debt for additional information about the Company's revolving credit facility. There have been no borrowings under this facility through March 31, 2019.

**Lease Liabilities.** Effective January 1, 2019, we adopted ASC 842 and recorded ROU assets and lease liabilities on our balance sheet for operating leases. These assets and liabilities are not included on our Consolidated Balance Sheet as of December 31, 2018, and are summarized as follows (in thousands):

<b>Operating Leases</b>	<b>March 31, 2019</b>	<b>January 1, 2019</b>
Right of use assets	\$ 34,582	\$ 36,863
Lease liabilities	35,755	37,956

### **Contractual Obligations**

Please refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Contractual Obligations” presented in our 2018 Form 10-K. There were no material changes to these obligations during the three months ended March 31, 2019.

### **Item 3: Quantitative and Qualitative Disclosures About Market Risk**

#### **Market Risk**

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market rates and prices, general credit, foreign currency exchange rate fluctuations, liquidity, and interest rate risks, which may be exacerbated by a tight global credit market and increase in economic uncertainty that have affected various sectors of the financial market from time to time. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We may enter into financial instrument contracts to manage and reduce the impact of changes in foreign currency exchange rates on earnings and cash flows. The counterparties to such contracts are major financial institutions.

Europe represents a significant portion of our revenue and cash flows. Since Europe is composed of varied countries and regional economies, our European risk profile is somewhat more diversified due to the varying economic conditions among the countries.



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Approximately 43% of our receivables were with European customers as of March 31, 2019. Of this amount, 29% of our European receivables (12% of consolidated receivables) were in the higher risk southern European countries (mostly Italy, Spain, and Portugal), which management believes are adequately reserved.

**Interest Rate Risk**

As of March 31, 2019, we did not invest in any financial instruments that are sensitive to changes in interest rates. Our debt bears fixed interest rates and is therefore also not sensitive to changes in interest rates. As of March 31, 2019, we have no outstanding borrowings under our revolving credit facility but the facility is subject to variable rates and any future borrowings we make under this facility would be sensitive to changes in interest rates.

**Market Risk on Convertible Notes**

As of March 31, 2019, we have a total of \$495.0 million principal amount of Notes outstanding. We carry these instruments at face value less unamortized discount on our Condensed Consolidated Balance Sheets. Since these instruments bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. Although the fair value of these instruments fluctuates when interest rates change, the market value of our Notes is also influenced by the conversion premium. Please refer to Note 8 – Fair Value Measurements and Note 10 – Debt of the Notes to Condensed Consolidated Financial Statements for further information.

**Foreign Currency Exchange Risk**

A large portion of our business is conducted in countries outside of the U.S and in foreign currencies. We are primarily exposed to changes in exchange rates for the Euro, British pound sterling, Indian rupee, Chinese renminbi, and Israeli shekel. Although the majority of our receivables are invoiced and collected in U.S. dollars, we have exposure from non-U.S. dollar-denominated sales (primarily consisting of the Euro, British pound sterling, and Chinese renminbi) and operating expenses (primarily the Euro, British pound sterling, Chinese renminbi, Israeli shekel, and Indian rupee) in foreign countries. Accordingly, we can benefit from a stronger U.S. dollar resulting in the corresponding reduction in our foreign operating expenses translated to U.S. dollars and at the same time we can be adversely affected by a stronger U.S. dollar resulting in the corresponding reduction in foreign revenue translated to U.S. dollars.

We hedge balance sheet remeasurement exposures using forward contracts not designated for hedge accounting treatment with notional amounts of \$186.6 million as of March 31, 2019. Please refer to Note 9 – Derivatives and Hedging of our Notes to Condensed Consolidated Financial Statements for further information.

The impact of hypothetical changes in foreign exchanges rates on revenue and loss from operations are presented below. The modeling technique measures the change in revenue and income from operations resulting from changes in selected foreign exchange rates with respect to the Euro, British pound sterling, and Chinese renminbi of plus or minus one percent during the three months ended March 31, 2019 as follows (in thousands):

	Impact of a foreign exchange rate decrease of one percent	No change in foreign exchange rates	Impact of a foreign exchange rate increase of one percent
Revenue	\$ 224,496	\$ 223,715	\$ 222,934
Loss from operations	(13,136)	(13,165)	(13,194)

**Item 4: Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We maintain “disclosure controls and procedures”, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, which are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019, the end of the period covered by this interim report, and concluded that our disclosure controls and procedures were effective as of that date.

## **Important Considerations**

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

## **Evaluation of Changes in Internal Control over Financial Reporting**

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management has evaluated changes in our internal control over financial reporting that occurred during the three months ended March 31, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1: Legal Proceedings**

We may be involved, from time to time, in a variety of claims, lawsuits, investigations, or proceedings relating to contractual disputes, securities laws, intellectual property rights, employment, or other matters that may arise in the normal course of business. We assess our potential liability in each of these matters by using the information available to us. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and various combinations of appropriate litigation and settlement strategies. We accrue estimated losses from contingencies if a loss is deemed probable and can be reasonably estimated.

For a description of our significant pending legal proceedings, please see Note 12 – Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

### **Item 1A: Risk Factors**

You should carefully consider the risk factors discussed in Part I, Item 1A, and Part II, Items 7 and 7A, of the 2018 Form 10-K, which could materially affect our business, financial condition, or future results. The risks described in the 2018 Form 10-K and 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 also may materially adversely affect our business, financial condition, and/or operating results.

#### ***There are risks and uncertainties associated with the Merger.***

The Merger, whether or not consummated, may result in a loss of our key personnel and may disrupt our sales and marketing or other key business activities, including our relationships with customers, suppliers and other third parties, which may have an adverse impact on our financial performance. Our business relationships may be subject to disruption due to uncertainty associated with the merger, which could have an adverse effect on our results of operations, cash flows and financial condition and, following the completion of the merger, those of the combined company. Additionally, we have incurred and will continue to incur substantial financial advisory, legal, and other professional fees and expenses in connection with the merger, which we must pay regardless of whether the merger is completed. These payments will negatively impact our results of operations, cash flows and financial condition.

Parties with which we do business may be uncertain as to the effects on them from the Merger and the related transactions, including their current or future business relationships with us or the combined company. These relationships may be subject to disruption, as customers, suppliers and other persons with whom we have business relationships may delay or defer certain business decisions or might decide to terminate, change or renegotiate their relationships with us, or consider entering into business relationships with parties other than us or the combined company. Additionally, our current and prospective employees may experience uncertainty about their roles with us or the combined company following the merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the Merger. These disruptions could have an adverse effect on our results of operations,

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cash flows and financial position or those of the combined company following the completion of the Merger. The risk, and adverse effect, of any disruption could be exacerbated by a delay in completion of the Merger or termination of the Merger Agreement.

The Merger is subject to a number of conditions, some of which are outside of the parties' control, and, if these conditions are not satisfied, the Merger Agreement may be terminated and the Merger may not be completed. These conditions include, among other customary conditions, including the adoption of the Merger Agreement by our shareholders, receipt of certain regulatory approvals, the absence of any legal prohibitions to the consummation of the Merger, the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the Merger Agreement. These conditions are described in more detail in the Merger Agreement, which is included as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on April 15, 2019. The required satisfaction of these conditions could delay the completion of the Merger for a significant period of time or prevent it from occurring. Any delay in completing the Merger could cause us or the combined company not to realize some or all of the benefits that the parties expect us or the combined company to achieve in connection with the Merger. Further, there is no assurance that all of the conditions set forth in the Merger Agreement will be satisfied or waived to the extent permitted by applicable law or that the Merger will occur when or as expected. If the Merger is not completed, the share price of our common stock could decline, for reasons including the loss of the premium over the pre-announcement market price of our common stock that was to be paid upon consummation of the Merger.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

There were no stock repurchases during the three months ended March 31, 2019. The authorization under our previously announced stock purchase program expired on December 31, 2018.

**Item 6: Exhibits**

No.	Description
2.1*	<a href="#">Agreement and Plan of Merger, dated as of April 14, 2019, by and among East Private Holdings II, LLC, East Merger Sub, Inc., and Electronics For Imaging, Inc.</a> <sup>(1)</sup>
3.1	<a href="#">Amended and Restated Certificate of Incorporation</a> <sup>(2)</sup>
3.2	<a href="#">Amended and Restated Bylaws of Electronics For Imaging, Inc. (as amended April 14, 2019)</a>
10.1	<a href="#">Credit Agreement Dated as of January 2, 2019 among Electronics For Imaging, Inc. and Citibank, N.A., as Administrative Agent, Citibank, N.A., as Sole Lead Arranger and Sole Bookrunner, and Bank Of The West, as Syndication Agent</a> <sup>(3)</sup>
10.2**	<a href="#">2019 Bonus Program</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

<sup>(1)</sup> Filed as an exhibit to the Company's Current Report on Form 8-K filed on April 15, 2019 (File No. 000-18805) and incorporated herein by reference.

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- (2) Filed as an exhibit to the Company's Annual Report on Form 10-K filed on February 22, 2017 (File No. 000-18805) and incorporated herein by reference.
- (3) Filed as an exhibit to the Company's Annual Report on Form 10-K filed on February 27, 2019 (File No. 000-18805) and incorporated herein by reference.
- \* All schedules to the Merger Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish a copy of any omitted schedule to the SEC upon request.
- \*\* Management contracts or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRONICS FOR IMAGING, INC.

Date: May 7, 2019

/s/ William Muir

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William Muir

Chief Executive Officer  
(Principal Executive Officer)

Date: May 7, 2019

/s/ Marc Olin

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Marc Olin

Chief Financial Officer  
(Principal Financial and Accounting Officer)

**AMENDED AND RESTATED BYLAWS**

**OF**

**ELECTRONICS FOR IMAGING, INC.**

**(as amended April 14, 2019)**

**ARTICLE I**

**OFFICES**

Section 1. Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware. The name of the registered agent of Electronics For Imaging, Inc. (the "*Corporation*") at such location is The Corporation Trust Company.

Section 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the Corporation may require.

**ARTICLE II**

**MEETINGS OF STOCKHOLDERS**

Section 1. Place of Meetings. Meetings of the stockholders of the Corporation may be held at such place, either within or without the State of Delaware, as may be designated by the board of directors from time to time. The board of directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as provided under the Delaware General Corporation Law.

Section 2. Annual Meeting. If required by applicable law, annual meetings of stockholders shall be held at such place, if any, date and time, as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which they shall elect by a plurality vote a board of directors, and transact such other business as may properly be brought before the meeting.

Section 3. Notice of Annual Meeting. Unless otherwise provided by law, the certificate of incorporation or these bylaws, notice of the annual meeting stating the place, if any, date and time of the meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 4. List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The Corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting; or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is

available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the list of stockholders required by this Section 4 of this Article II or to vote in person or by proxy at any meeting of stockholders.

Section 5.                   Special Meeting. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the board of directors for adoption), the chairman of the board, the president or the chief executive officer. No business may be transacted at such special meeting otherwise than specified in such notice. Nothing contained in this Section 5 of this Article II shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

Section 6.                   Notice of Special Meeting. Unless otherwise provided by law, the certificate of incorporation or these bylaws, notice of a special meeting stating the place, if any, date and time of the meeting, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting and the purpose or purposes for which the meeting is called shall be given to each stockholder



entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 7. Advance Notice of Business to be Brought Before a Meeting.

(a) General. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting given by or at the direction of the board of directors, (ii) brought before the meeting by or at the direction of the board of directors, or (iii) otherwise properly brought before the meeting by a stockholder who (A) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Article II, Section 7 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) complied with all of the notice procedures set forth in this Article II, Section 7 as to such business. Except for proposals made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), and included in the notice of meeting given by or at the direction of the board of directors, the foregoing clause (iii) shall be the exclusive means for a stockholder to propose business to be brought before an annual meeting of the stockholders. Stockholders shall not be permitted to propose business to be brought before a special meeting of the stockholders, and the only matters that may be brought before a special meeting are the matters specified in the notice of meeting given by or at the direction of the person calling the meeting pursuant to Article II, Section 5 of these bylaws. Stockholders seeking to nominate persons for election to the board of directors must comply with the notice procedures set forth in Article II, Section 8 of these bylaws, and this Article II, Section 7 shall

not be applicable to nominations except as expressly provided in Article II, Section 8 of these bylaws.

(b) Notice Requirements. Without qualification, for business to be properly brought before an annual meeting by a stockholder, the stockholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Article II, Section 7. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120<sup>th</sup>) day and not later than the close of business on the ninetieth (90<sup>th</sup>) day prior to the first anniversary of the preceding year's annual meeting; *provided, however*, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120<sup>th</sup>) day prior to such annual meeting and not later than the close of business on the ninetieth (90<sup>th</sup>) day prior to such annual meeting or, if the first public disclosure (as defined below) of the date of such annual meeting is less than one hundred (100) days prior to the date of such annual meeting, the close of business on the tenth (10<sup>th</sup>) day following the day on which public disclosure of the date of such annual meeting was made (such notice within such time periods, "*Timely Notice*"). In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) Information Required to be Set Forth in Notice. To be in proper form for purposes of this Article II, Section 7, a stockholder's notice to the secretary of the Corporation

pursuant to this Article II, Section 7 shall be required to set forth:

(i) As to the stockholder providing the notice and each other Proposing Person (as defined below), (A) the name and address of the stockholder providing the notice, as they appear on the Corporation's books, and each other Proposing Person and (B) the class or series and number of shares of the Corporation that are, directly or indirectly, owned of record or beneficially owned (as defined in Rule 13d-3 under the Exchange Act) by the stockholder providing the notice and/or any other Proposing Persons, except that such stockholder and/or such other Proposing Persons shall be deemed to beneficially own any shares of any class or series of the Corporation as to which such stockholder and/or such other Proposing Persons has a right to acquire beneficial ownership at any time in the future;

(ii) As to the stockholder providing the notice (or, if different, the beneficial owner on whose behalf such business is proposed) and each other Proposing Person, (A) any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such stockholder or beneficial owner, as applicable, and/or any other Proposing Person, the purpose or effect of which is to give such stockholder or beneficial owner, as applicable, and/or such other Proposing Person economic risk similar to ownership of shares of any class or series of the Corporation, including due to the fact that the value of such derivative, swap or other transaction is determined by reference to the price, value or volatility of any shares of any class or series of the Corporation, or which derivative, swap or other transaction provides, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the Corporation ("*Synthetic Equity Interests*"), which such Synthetic Equity

Interests shall be disclosed without regard to whether (x) such derivative, swap or other transaction conveys any voting rights in such shares to such stockholder or beneficial owner, as applicable, and/or such other Proposing Person, (y) the derivative, swap or other transaction is required to be, or is capable of being, settled through delivery of such shares or (z) such stockholder or beneficial owner, as applicable, and/or such other Proposing Person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transaction, (B) any proxy (other than a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the Exchange Act), agreement, arrangement, understanding or relationship pursuant to which such stockholder or beneficial owner, as applicable, and/or any other Proposing Person has or shares a right to vote any shares of any class or series of the Corporation, (C) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called “stock borrowing” agreement or arrangement, engaged in, directly or indirectly, by such stockholder or beneficial owner, as applicable, and/or any other Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of shares of any class or series of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such stockholder or beneficial owner, as applicable, and/or such other Proposing Person with respect to the shares of any class or series of the Corporation, or which provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of the shares of any class or series of the Corporation (“*Short Interests*”), (D) any rights to dividends on the shares of any class or series of the Corporation owned beneficially by such stockholder or beneficial owner, as

applicable, and/or any other Proposing Person that are separated or separable from the underlying shares of the Corporation, (E) any performance related fees (other than an asset based fee) that such stockholder or beneficial owner, as applicable, and/or any other Proposing Person is entitled to based on any increase or decrease in the price or value of shares of any class or series of the Corporation, any Synthetic Equity Interests or Short Interests, if any, (F)(x) if such stockholder or beneficial owner, as applicable, and/or any other Proposing Person is not a natural person, the identity of the natural person or persons associated with such stockholder or beneficial owner, as applicable, or such other Proposing Person responsible for the formulation of and decision to propose the business to be brought before the meeting (such person or persons, the “*Responsible Person*”), the manner in which such Responsible Person was selected, any fiduciary duties owed by such Responsible Person to the equity holders or other beneficiaries of such stockholder or beneficial owner, as applicable, or such other Proposing Person, the qualifications and background of such Responsible Person and any material interests or relationships of such Responsible Person that are not shared generally by the other stockholders of the Corporation and that reasonably could have influenced the decision of such stockholder or beneficial owner, as applicable, and/or such other Proposing Person to propose such business to be brought before the meeting, and (y) if such stockholder or beneficial owner, as applicable, and/or any other Proposing Person is a natural person, the qualifications and background of such natural person and any material interests or relationships of such natural person that are not shared generally by the other stockholders of the Corporation and that reasonably could have influenced the decision of such stockholder or beneficial owner, as applicable, and/or such other Proposing Person

to propose such business to be brought before the meeting, (G) any significant equity interests or any Synthetic Equity Interests or Short Interests in any principal competitor of the Corporation held by such stockholder or beneficial owner, as applicable, and/or any other Proposing Persons (H) any direct or indirect interest of such stockholder or beneficial owner, as applicable, and/or any other Proposing Person in any contract with the Corporation, any affiliate of the Corporation (including any employment agreement, collective bargaining agreement or consulting agreement), or any principal competitor of the Corporation, (I) any pending or threatened litigation in which such stockholder or beneficial owner, as applicable, and/or any other Proposing Person is a party or material participant involving the Corporation or any of its officers or directors, or any affiliate of the Corporation, (J) any material transaction occurring during the prior twelve months between such stockholder or beneficial owner, as applicable, and/or any other Proposing Person, on the one hand, and the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation, on the other hand, (K) a summary of any material discussions regarding the business proposed to be brought before the meeting between such stockholder or beneficial owner, as applicable, and/or any other Proposing Person, and (L) any other information relating to such stockholder or beneficial owner, as applicable, and/or any other Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies by such stockholder or beneficial owner, as applicable, and/or such other Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14 of the Exchange Act and the rules and regulations thereunder (the disclosures to be made pursuant to the foregoing clauses (A) through (L) are referred to

as “*Disclosable Interests*”); and

(iii) As to each matter the stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of the stockholder providing the notice and/or any other Proposing Person, and (B) a reasonably detailed description of all agreements, arrangements and understandings between or among the stockholder providing the notice, any other Proposing Person, and/or any other persons or entities (including their names) in connection with the proposal of such business by such stockholder.

For purposes of this Article II, Section 7, the term “*Proposing Person*” shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner, if different, on whose behalf the business proposed to be brought before the annual meeting is made, (iii) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Exchange Act) of such beneficial owner, and (iv) any other person with whom such stockholder or beneficial owner (or any of their respective affiliates or associates) is Acting in Concert (as defined below).

A person shall be deemed to be “*Acting in Concert*” with another person for purposes of these Bylaws if such person knowingly acts (whether or not pursuant to an express agreement, arrangement or understanding) in concert with, or towards a common goal relating to the management, governance or control of the Corporation in parallel with, such other person where (A) each person is conscious of the other person’s conduct or intent and this awareness is

an element in their decision-making processes and (B) at least one additional factor suggests that such persons intend to act in concert or in parallel, which such additional factors may include, without limitation, exchanging information (whether publicly or privately), attending meetings, conducting discussions, or making or soliciting invitations to act in concert or in parallel; *provided*, that a person shall not be deemed to be Acting in Concert with any other person solely as a result of the solicitation or receipt of revocable proxies from such other person in connection with a public proxy solicitation pursuant to, and in accordance with, the Exchange Act. A person which is Acting in Concert with another person shall be deemed to be Acting in Concert with any third party who is also acting in concert with such other person.

(d) Updates and Supplements. A stockholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Article II, Section 7 shall be true and correct as of the record date for the meeting and, if different, as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to or mailed and received by the secretary of the Corporation at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(e) Business Not Properly Brought Before the Meeting. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting



except in accordance with the procedures set forth in this Article II, Section 7. The presiding officer of an annual meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with the provisions of this Article II, Section 7, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(f) Rule 14a-8; Compliance with Exchange Act. This Article II, Section 7 is expressly intended to apply to any business proposed to be brought before an annual meeting, regardless of whether or not such proposal is made pursuant to Rule 14a-8 under the Exchange Act. In addition to the requirements of this Article II, Section 7 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to any such business. This Article II, Section 7 shall not be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(g) Definition of "Public Disclosure." For purposes of these bylaws, "*public disclosure*" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act and the rules and regulations thereunder.

Section 8. Notice of Nominations of Directors.

(a) General. Nominations of persons for election to the board of directors at an annual meeting or at a special meeting (but only if the board of directors has first determined

that directors are to be elected at such special meeting) may be made at such meeting (i) by or at the direction of the board of directors, including by any committee or persons appointed by the board of directors, or (ii) by any stockholder who (A) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Article II, Section 8 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) complied with the notice procedures set forth in this Article II, Section 8 as to such nomination. This Article II, Section 8 shall be the exclusive means for a stockholder to propose any nomination of a person or persons for election to the board of directors to be considered by the stockholders at an annual meeting or special meeting.

(b) Notice Requirements. Without qualification, for nominations to be made at an annual meeting by a stockholder, the stockholder must (i) provide Timely Notice (as defined in Article II, Section 7 of these bylaws) thereof in writing and in proper form to the secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Article II, Section 8. Without qualification, if the board of directors has first determined that directors are to be elected at such special meeting, then for nominations to be made at a special meeting by a stockholder, the stockholder must (i) provide timely notice thereof in writing and in proper form to the secretary of the Corporation at the principal executive offices of the Corporation, and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Article II, Section 8. To be timely, a stockholder's notice for nominations to be made at a special meeting by a stockholder must be delivered to or mailed and received at the principal executive offices of the Corporation not

earlier than the close of business on the one hundred twentieth (120<sup>th</sup>) day prior to such special meeting and not later than the close of business on the ninetieth (90<sup>th</sup>) day prior to such special meeting or, if the first public disclosure (as defined in Article II, Section 7 of these bylaws) of the date of such special meeting is less than one hundred (100) days prior to the date of such special meeting, the tenth (10<sup>th</sup>) day following the day on which public disclosure (as defined in Article II, Section 7 of these bylaws) of the date of such special meeting was first made. In no event shall any adjournment or postponement of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above.

(c) Information Required to be Set Forth in Notice. To be in proper form for purposes of this Article II, Section 8, a stockholder's notice to the secretary of the Corporation pursuant to this Article II, Section 8 shall be required to set forth:

(i) As to the stockholder providing the notice and each other Proposing Person (as defined below), (A) the name and address of the stockholder providing the notice, as they appear on the Corporation's books, and of the other Proposing Persons, and (B) any Disclosable Interests (as defined in Article II, Section 7 of these bylaws) of the stockholder providing the notice (or, if different, the beneficial owner on whose behalf such notice is given) and/or each other Proposing Person;

(ii) As to each person whom the stockholder proposes to nominate for election as a director, (A) all information with respect to such proposed nominee that would be required to be set forth in a stockholder's notice pursuant to this Article II, Section 8 if such proposed nominee were a Proposing Person, (B) all information relating

to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 under the Exchange Act and the rules and regulations thereunder (including such proposed nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) and (C) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among the stockholder providing the notice (or, if different, the beneficial owner on whose behalf such notice is given) and/or any Proposing Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates and any other persons with whom such proposed nominee (or any of his or her respective affiliates and associates) is Acting in Concert (as defined in Article II, Section 7 of these bylaws), on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such stockholder or beneficial owner, as applicable, and/or such Proposing Person were the "registrant" for purposes of such rule and the proposed nominee were a director or executive officer of such registrant; and

(iii) The Corporation may require any proposed nominee to furnish such other information (including one or more accurately completed and executed questionnaires and executed and delivered agreements) as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable

stockholder's understanding of the independence or lack of independence of such proposed nominee.

For purposes of this Article II, Section 8, the term "*Proposing Person*" shall mean (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner, if different, on whose behalf the nomination proposed to be made at the meeting is made, (iii) any affiliate or associate of such beneficial owner (as such terms are defined in Rule 12b-2 under the Exchange Act) and (iv) any other person with whom such stockholder or such beneficial owner (or any of their respective affiliates or associates) is Acting in Concert.

(d) Updates and Supplements. A stockholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Article II, Section 8 shall be true and correct as of the record date for the meeting and, if different, as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to or mailed and received by the secretary of the Corporation at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(e) Defective Nominations. Notwithstanding anything in these bylaws to the

contrary, no person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Article II, Section 8. The presiding officer at the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with the provisions of this Article II, Section 8, and if he or she should so determine, he or she shall so declare such determination to the meeting and the defective nomination shall be disregarded.

(f) Compliance With Exchange Act. In addition to the requirements of this Article II, Section 8 with respect to any nomination proposed to be made at a meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to any such nominations.

Section 9. Manner of Giving Notice; Affidavit of Notice. Notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such person's address as it appears on the records of the Corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Without limiting the foregoing, any notice to stockholders given by the Corporation under any provision of the Delaware General Corporation Law, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to (and not properly revoked by written notice to the Corporation) by the stockholder to whom the notice is given, to the extent such consent is required by the Delaware General Corporation Law. Any such consent shall be revocable by the stockholder by written notice to

the Corporation and shall also be deemed revoked if (i) the Corporation is unable to deliver by electronic transmission two (2) consecutive notices given by the Corporation in accordance with such consent; and (ii) such inability becomes known to the secretary or an assistant secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice; *provided, however,* that the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given by a form of electronic transmission in accordance with these bylaws shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network, together with separate notice to the stockholder of such specific posting, upon the later of such posting and the giving of such separate notice; and (iv) if by another form of electronic transmission, when directed to the stockholder. For purposes of these bylaws, “*electronic transmission*” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Without limiting the foregoing, any notice to stockholders given by the Corporation under any provision of the Delaware General Corporation Law, the certificate of incorporation or these bylaws may be given by a single written notice to stockholders who share an address if consented to by the stockholders at such address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any stockholder who fails to object in writing to the Corporation, within sixty (60) days of having been given written notice by the Corporation of its intention to send the single notice in

accordance with this Section 9 of this Article II, shall be deemed to have consented to receiving such single written notice.

Section 10. Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by applicable law or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified.

Section 11. Adjourned Meeting; Notice. When a meeting is adjourned to another place, if any, or time, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the place, if any, and time thereof and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.



Section 12. Conduct of Business.

Meetings of stockholders shall be presided over by the chairman of the board of directors, if any, or in the absence of such a person by a person designated by the board of directors, or in the absence of a person so designated by the board of directors, by the chief executive officer of the corporation, or in the absence of such a person by a chairman chosen at the meeting by the holders of a majority in voting power of the stock entitled to vote thereat, present in person or represented by proxy. The secretary, or in his or her absence, an assistant secretary of the Corporation, or in the absence of the secretary and all assistant secretaries, a person whom the chairman of the meeting shall appoint, shall act as secretary of the meeting and keep a record of the proceedings thereof.

The board of directors shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the board of directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting and matters which are to be voted on by ballot.

Section 13. Voting; Proxies.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 15 of Article II of these bylaws, subject to the provisions of Sections 217 and 218 of the Delaware General Corporation Law (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the certificate of incorporation, these bylaws, the rules or regulations of any stock exchange applicable to the Corporation, applicable law or any regulation applicable to the Corporation or its securities, a different vote is required, in which case such express provision shall govern and control the decision of such question, or unless the vote is with respect to the election of directors, in which case directors shall be elected by a plurality vote of the stockholders.

Unless otherwise provided in the certificate of incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on or after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any

proxy which is not irrevocable by attending the meeting and voting in person or by delivering to the secretary of the Corporation a revocation of the proxy or a new proxy bearing a later date.

Section 14. Waiver of Notice. Whenever notice is required to be given under any provision of the Delaware General Corporation Law or of the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

Section 15. Record Date for Stockholder Notice, Voting and Giving Consents.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, entitled to consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date which: (i) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty (60) nor less than ten (10) days before the date

of such meeting; (ii) in the case of determination of stockholders entitled to consent to corporate action in writing without a meeting, not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the board of directors; and (iii) in the case of any other action, shall not be more than sixty (60) days prior to such other action. If no record date is fixed: (i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (ii) the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, (a) when no prior action is required by the Delaware General Corporation Law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to (1) the Corporation by delivery to its registered office in the State of Delaware by hand or by certified or registered mail, return receipt requested, (2) the Corporation's principal place of business or (3) an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded, and (b) when prior action by the board of directors is required by the Delaware General Corporation Law, shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action; and (iii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the board of directors may fix a new record date for the adjourned meeting.

Section 16. Action by Written Consent of Stockholders. Unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

Section 17. Inspectors of Elections. The Corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. In the event that no inspector or alternate so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each such share; (ii) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots; (iii) count all votes and ballots; (iv) determine

and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and (v) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Corporation, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election.

### **ARTICLE III**

#### **DIRECTORS**

Section 1. Number of Directors; Election, Qualification and Term of Office. The number of directors which shall constitute the whole board shall be seven (7). The board of directors may, by resolution passed by a majority of the whole board, change the authorized number of directors, provided that the number of authorized directors shall not be less than three (3). The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 2 of this Article, and each director elected shall hold office until his or her successor is elected and qualified. Any director may resign at any time upon written notice to the board of directors or to the secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time is not specified, it shall take effect immediately upon its receipt by the board of directors or the secretary; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Directors need not be stockholders, residents of Delaware or citizens of the United States.

Section 2.                   Vacancies and Newly Created Directorships. Vacancies and newly created directorships resulting from an increase in the authorized number of directors shall be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director, and each director so chosen shall hold office until the next annual election and until his or her successor is elected and qualified or until such director's earlier resignation or removal. If there are no directors in office, then an election of directors shall be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office.

Section 3.                   Powers. The business of the Corporation shall be managed by or under the direction of its board of directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these bylaws directed or required to be exercised or done by the stockholders.

Section 4.                   Place of Meetings. The board of directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 5.                   Regular Meetings. Regular meetings of the board of directors may be held without notice at such place, if any, and time shall from time to time be determined by the board of directors.

Section 6.                   Special Meetings. Special meetings of the board of directors may be called by the chairman of the board, the chief executive officer or the president on such notice to each director, either personally or by mail or by telegram or by other means of electronic transmission, as shall constitute sufficient time for the convenient assembly of the directors thereat; special meetings shall be called by the chief executive officer, the president or the secretary of the Corporation in like manner and on like notice on the written request of two (2) directors.

Section 7.                   Quorum. At all meetings of the board a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 8.                   Action Without a Meeting. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing, or by



electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee.

Section 9. Meetings by Telephone. Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 10. Waiver of Notice. Whenever notice is required to be given under any provision of the Delaware General Corporation Law or of the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors or members of a committee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

Section 11. Committees of Directors. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The board may

designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not the member or members present constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the bylaws of the Corporation; and, unless the resolution or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

Section 12.                    Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 13.                    Tenure, Meetings and Actions of Committees. Each committee shall serve at the pleasure of the board of directors. Meetings and actions of committees shall be

governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 4 (place of meetings), Section 5 (regular meetings), Section 6 (special meetings), Section 7 (quorum), Section 8 (action without a meeting), Section 9 (meetings by telephone) and Section 10 (waiver of notice), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; *provided, however*, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

Section 14.                    Executive Committee. The board of directors may, by resolution passed by a majority of the board of directors, designate an executive committee which shall have and may exercise all the powers and authority of the board of directors in the management of the business, properties and affairs of the Corporation, including authority to take all action provided by law and in the bylaws to be taken by the board of directors, except as such powers and authority are limited by Section 11 of this Article III. The executive committee shall consist of those directors appointed by the board of directors. All acts done and powers conferred by the executive committee shall be deemed to be, and may be certified as being, done or conferred under authority of the board of directors.

Section 15.                    Expenses and Compensation of Directors. Directors, as such, may receive, pursuant to a resolution of the board of directors, fees and other compensation for their

services as directors, including without limitation their services as members of committees of the board of directors.

Section 16.                    Removal. Unless otherwise restricted by the certificate of incorporation or bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of shares entitled to vote at an election of directors.

## **ARTICLE IV**

### **OFFICERS**

Section 1.                    Officers. The officers of the Corporation shall be elected by the board of directors and shall be a chairman of the board, a chief executive officer, a president, a chief financial officer and a secretary. The chairman of the board shall be chosen from among the non-employee members of the board of directors. The board of directors may also elect a treasurer, one or more assistant treasurers, one or more vice presidents, one or more assistant vice presidents, one or more assistant secretaries and any such other officers as may be appointed in accordance with the provisions of these bylaws. Unless the certificate of incorporation or these bylaws otherwise provide, any number of offices may be held by the same person; *provided* that the position of chairman of the board of directors shall not be held by the chief executive officer.

Section 2.                    Subordinate Officers. The board of directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board of directors.

Section 3. Term; Removal; Vacancies. The officers of the Corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. Any officer may resign at any time by giving written notice to the attention of the secretary of the Corporation. Any resignation shall take effect at the date of receipt of the notice or at any later time specified in the notice; and, unless otherwise specified in the notice, the acceptance of the resignation shall not be necessary to make it effective. Any vacancy occurring in any office of the Corporation shall be filled by the board of directors.

Section 4. Chairman of the Board of Directors. The chairman of the board shall preside at all meetings of the stockholders and the board of directors at which he or she is present, and shall exercise and perform such other powers and duties as may from time to time be assigned to him or her by the board of directors or as may be prescribed by these bylaws.

Section 5. Chief Executive Officer. The chief executive officer shall be the principal executive officer of the Corporation, shall have general and active management and control of the business of the Corporation, shall see that all orders and resolutions of the board of directors are carried into effect, and shall have general supervision and direction of all of the other officers, employees and agents of the Corporation. The chief executive officer may sign bonds, mortgages, certificates for shares and all other contracts, instruments and documents whether or not under the seal of the Corporation except in cases where the signing and execution thereof shall be expressly delegated by law, by the board of directors or by these bylaws to some other officer or agent of the Corporation.

Section 6. President. In the absence or disability of the chief executive officer or in the event of his or her inability or refusal to act, the president shall perform the duties of the chief executive officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the chief executive officer. At all other times the president shall have the active management and control of the business of the Corporation under the general supervision of the chief executive officer. The president shall have concurrent power with the chief executive officer to sign bonds, mortgages, certificates for shares and other contracts, instruments and documents, whether or not under the seal of the Corporation except in cases where the signing and execution thereof shall be expressly delegated by law, by the board of directors or by these bylaws to some other officer or agent of the Corporation. In general, the president shall perform all duties incident to the office of president and such other duties as the chief executive officer or the board of directors may from time to time prescribe.

Section 7. Vice Presidents. In the absence of the president or in the event of his or her inability or refusal to act, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated by the directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the president, and when so acting shall have all the powers of and be subject to all the restrictions upon the president. The vice presidents shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

Section 8. Secretary. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He or she shall give, or cause to

be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors, chief executive officer or president, under whose supervision he or she shall be. He or she shall have custody of the corporate seal of the Corporation and he or she, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his or her signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature.

Section 9.                   Assistant Secretary or Secretaries. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

Section 10.                   Chief Financial Officer. The chief financial officer shall be the principal financial officer and, unless the board of directors appoints someone other than the chief financial officer to be the treasurer, the treasurer of the Corporation. He or she shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the board of directors. He or she shall disburse the funds of the Corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the chief executive officer or president and the board of

directors, at its regular meetings, or when the board of directors so requires, an account of all his or her transactions as chief financial officer and of the financial condition of the Corporation. If required by the board of directors, he or she shall give the Corporation a bond (which shall be renewed every six (6) years) in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 11. Assistant Treasurer or Treasurers. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

## ARTICLE V

### CERTIFICATES OF STOCK

Section 1. Stock Certificates. The shares of the Corporation shall be represented by certificates, *provided* that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation's stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock in the Corporation represented by certificates shall be entitled to have a certificate signed by, or in the name of the Corporation by, the chairman of the board of directors, or the president or a vice president, and



the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation, representing the number of shares registered in certificate form. Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 2.                    Lost Certificates. The Corporation may issue a new certificate of stock or uncertificated shares in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. The board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or such person's legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 3.                    Transfers of Stock. Stock of the Corporation shall be transferable in the manner prescribed by law and in these bylaws. Shares of stock of the Corporation shall only be transferred on the books of the Corporation by the holder of record thereof or by such holder's attorney duly authorized in writing, upon surrender to the Corporation of the certificate or certificates representing such shares endorsed by the appropriate person or persons (or by delivery of duly executed instructions with respect to uncertificated shares), with such evidence

of the authenticity of such endorsement or execution, transfer, authorization and other matters as the Corporation may reasonably require, and accompanied by all necessary stock transfer stamps. No transfer of stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing the names of the persons from and to whom it was transferred.

Section 4. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

## **ARTICLE VI**

### **INDEMNIFICATION**

Section 1. Third Party Actions. The Corporation shall, to the fullest extent permitted by law, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the

Corporation, which approval shall not be unreasonably withheld) actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. Notwithstanding the preceding sentence, except as otherwise provided in Section 6 of this Article VI, the Corporation shall be required to indemnify a director or officer in connection with a proceeding (or part thereof) commenced by such director or officer only if the commencement of such proceeding (or part thereof) by the director or officer was authorized in the specific case by the board of directors of the Corporation. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful.

Section 2.                    Actions by or in Right of the Corporation. The Corporation shall, to the fullest extent permitted by law, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of

such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interest of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper. Notwithstanding the preceding sentence, except as otherwise provided in Section 6 of this Article VI, the Corporation shall be required to indemnify a director or officer in connection with a proceeding (or part thereof) commenced by such director or officer only if the commencement of such proceeding (or part thereof) by the director or officer was authorized in the specific case by the board of directors of the Corporation.

Section 3.                    Successful Defense. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 or 2 of this Article VI or in defense of any claim, issue or matter therein, such person shall be indemnified, to the fullest extent permitted by law, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 4.                    Determination of Conduct. Any indemnification under Sections 1 or 2 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the

applicable standard of conduct set forth in Sections 1 or 2 or this Article VI. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iv) by the holders of a majority of the stock entitled to vote thereon.

Section 5.                    Payment of Expenses in Advance. Expenses (including attorneys' fees) incurred by a person who may be entitled to indemnification pursuant to Section 1 or 2 of this Article VI in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the board of directors in the specific case upon receipt of an undertaking by or on behalf of the person to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VI.

Section 6.                    Claims. If a claim for indemnification (following the final disposition of such action, suit or proceeding) or advancement of expenses under this Article VI is not paid in full within thirty (30) days after a written claim therefor by the person entitled to indemnification hereunder has been received by the Corporation, such person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that such person is not entitled to the requested indemnification or advancement of expenses under applicable law.

Section 7. Indemnity Not Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 8. Indemnification Contracts. The board of directors is authorized to cause the Corporation to enter into indemnification contracts with any director, officer, employee or agent of the Corporation, or any person serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, providing indemnification rights to such person. Such rights may be greater than those provided in this Article VI.

Section 9. Insurance. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article VI.

Section 10. Other Sources. The Corporation's obligation, if any, to indemnify or to advance expenses to any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall be reduced by any amount such person may collect as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust or other enterprise.

Section 11. The Corporation. For purposes of this Article VI, references to "*the Corporation*" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under and subject to the provisions of this Article VI (including, without limitation the provisions of Section 5) with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

Section 12. Employee Benefit Plans. For purposes of Article VI, references to "*other enterprises*" shall include employee benefit plans; references to "*finer*" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "*serving at the request of the Corporation*" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves service by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably

believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VI.

Section 13. Effect of Amendment. Any amendment, repeal or modification of any provision of this Article VI shall be prospective only, and shall not adversely affect any right or protection conferred on a person pursuant to this Article VI and existing at the time of such amendment, repeal or modification.

## **ARTICLE VII**

### **GENERAL PROVISIONS**

Section 1. Dividends. Dividends upon the capital stock of the Corporation may be declared by the board of directors, subject to any restrictions contained in the Delaware General Corporation Law or the certificate of incorporation. Dividends may be paid in cash, in property, or in shares of the Corporation’s capital stock.

Section 2. Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.



Section 3. Annual Statement. The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the Corporation.

Section 4. Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

Section 5. Fiscal Year. The fiscal year of the Corporation shall be fixed, and shall be subject to change, by the board of directors.

Section 6. Seal. The Corporation may adopt a corporate seal, which shall be adopted and which may be altered by the board of directors, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 7. Certificate of Incorporation Governs. In the event of any conflict between the provisions of the certificate of incorporation and bylaws, the provisions of the certificate of incorporation shall govern.

Section 8. Severability. If any provision of these bylaws shall be held to be invalid, illegal, unenforceable or in conflict with the provisions of the certificate of incorporation, then such provision shall nonetheless be enforced to the maximum extent possible consistent with such holding and the remaining provisions of these bylaws (including without limitation, all portions of any section of these bylaws containing any such provision held to be invalid, illegal, unenforceable or in conflict with the certificate of incorporation, that are not

themselves invalid, illegal, unenforceable or in conflict with the certificate of incorporation) shall remain in full force and effect.

## **ARTICLE VIII**

### **AMENDMENTS**

These bylaws may be altered, amended or repealed or new bylaws may be adopted by the stockholders or by the board of directors, when such power is conferred upon the board of directors by the certificate of incorporation, at any regular meeting of the stockholders or of the board of directors or at any special meeting of the stockholders or of the board of directors if notice of such alteration, amendment, repeal or adoption of new bylaws be contained in the notice of such special meeting. If the power to adopt, amend or repeal bylaws is conferred upon the board of directors by the certificate of incorporation it shall not divest or limit the power of the stockholders to adopt, amend or repeal bylaws.

## **ARTICLE IX**

### **EXCLUSIVE FORUM**

#### Section 9.1 EXCLUSIVE FORUM.

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for all “internal corporate claims.” “Internal corporate claims” means claims, including claims in the right of the Corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity or (ii) as to which the General Corporation Law of the State of Delaware confers jurisdiction upon the Court of Chancery; provided, however, if (and only if) the Court of Chancery declines to accept

jurisdiction over a particular matter, the state or federal courts of the State of Delaware shall be the sole and exclusive forum for all “internal corporate claims” unless the Corporation consents in writing to the selection of an alternative forum. If any provision or provisions of this Article IX shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Article IX (including, without limitation, each portion of any sentence of this Article IX containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 9.1.

**SECRETARY'S CERTIFICATE OF ADOPTION OF BYLAWS**

I hereby certify that I am the duly elected and acting Secretary of ELECTRONICS FOR IMAGING, INC., a Delaware corporation, and that the foregoing Amended and Restated Bylaws, comprising 46 pages, constitute the Amended and Restated Bylaws of said corporation as duly adopted at a meeting of the Board of Directors thereof held on April 14, 2019.

WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said corporation on April 14, 2019.

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Alex Grab, Corporate Secretary



**[Section 16 Officers]  
EFI 2019 Bonus Program**

We are pleased to offer you participation in the EFI 2019 Bonus Program (the “Program”) on the terms below.

Each participant (the “Participant”) in the Program will, provided that the Participant remains employed by EFI through the date of grant of such awards, be granted an award of restricted stock units that is subject to vesting requirements based on the performance of Electronics For Imaging, Inc. (“EFI” or the “Company”) for 2019 and the Participant’s continued employment as set forth below.

**Equity Bonus and Performance Targets**

Your Target Equity Bonus Eligibility amount is:

Target Equity Bonus Eligibility: **[\$]**  
Number of RSUs granted for Target Bonus: [\*\*\*\*\*]  
Total Granted RSUs (including Maximum Overachievement of Performance Metrics): [\*\*\*\*\*]

The performance goals applicable to your equity bonus opportunity are:

<b>Component % of Total Award</b>		<b>Threshold</b>	<b>Target Achievement</b>	<b>Target Over-Achievement</b>
<b>40%</b>	<b>Company Revenue</b>	<b>\$ ___ M</b>	<b>\$ ___ M</b>	<b>\$ ___ M</b>
	(% of bonus earned for this Component)	0%	100%	200%
	(% of RSU award vesting for this Component)	0%	50%	100%
<b>40%</b>	<b>Company Non-GAAP Operating Income</b>	<b>\$ ___ M</b>	<b>\$ ___ M</b>	<b>\$ ___ M</b>
	(% of bonus earned for this Component)	0%	100%	200%
	(% of RSU award vesting for this Component)	0%	50%	100%
<b>20%</b>	<b>Cash From Operations as a Percentage of Non-GAAP Net Income (Company)</b>	<b>___%</b>	<b>___%</b>	<b>___%</b>
	(% of bonus earned for this Component)	0%	100%	200%
	(% of RSU award vesting for this Component)	0%	50%	100%

### **Target Achievement Metrics**

If the Company's performance for a Program Component is at or above the threshold level set forth above, a percentage of the Total Granted RSUs associated with that Program Component will vest on a pro-rata, straight-line basis between 0% and 50%, starting at 0% at or below the Threshold level for that Program Component up to 50% at the Target level for that Program Component (representing 100% Target Bonus Achievement earned for that component).

### **Overachievement Metrics**

If the Company's performance for a Program Component is at or above the Target Achievement level set forth above, a percentage of the Total Granted RSUs associated with that Program Component will vest on a pro-rata, straight-line basis between 50% and 100%, starting at 50% at the Target Achievement level for that Program Component up to 100% at or above the Overachievement level for that Program Component (representing 200% Target Bonus Achievement earned for that component).

The number of Total Granted RSUs that vest will be determined based on the Company's performance in 2019 for each Program Component, as certified by the Compensation Committee.

The total number of RSUs that vest will be calculated by *multiplying* (a) the vesting percentage for each Program Component of your award *times* (b) the number of RSUs associated with the corresponding Program Component based on the Component Percentage of Total Award set forth above and the actual number of RSUs granted to you in your RSU Award, and (c) adding together the resulting number of RSUs (if any) associated with each Program Component, each rounded down to the nearest whole share. The sum of the numbers described in subsection (c) of the previous sentence shall be the number of Total Granted RSUs that vest.

## **Performance Equity Bonus Terms**

- Per the approval by the Company's Board of Directors' Compensation Committee (the "Compensation Committee") and subject to your continued employment with the Company through the date of grant, you will be granted a performance-based restricted stock unit ("RSU") award with respect to the Program. The RSU award (the "RSU Award") will be subject to vesting based on the achievement of the Company performance goals for 2019 as set forth above (the "Program Components") and your continued employment as set forth below.
  - The number of RSUs that you will be granted will equal your "Target Equity Bonus Eligibility" amount (expressed in U.S. Dollars) above, divided by the closing price of EFI's common stock on March     , 2019, multiplied by two to reflect the maximum possible overachievement of the Company performance metrics above (in total, the "Total Granted RSUs"). The total number of RSUs granted will be rounded down to the nearest whole share.
  - The RSUs will be granted under and will be subject to the terms and conditions of EFI's 2017 Equity Incentive Plan, as amended (the "2017 Equity Plan") and the restricted stock unit award notice and restricted stock unit award agreement used by EFI to evidence RSU awards granted under the 2017 Equity Plan (the "Award Agreement"), except as otherwise expressly set forth herein. Each RSU Award will have a grant date that is the grant date that the Compensation Committee approves for such award (the "Grant Date"). The RSU Award is also subject to the individual and other share limits of the 2017 Plan.
  - During the first quarter of 2020, the Program Administrator (as defined below) will determine whether (and the extent to which) the performance conditions applicable to the RSUs were achieved for 2019, subject to approval by the Compensation Committee (the date of the Compensation Committee's approval is referred to as the "Determination Date"). Subject to your continued employment by the Company through the applicable Vesting Date, if the Program Administrator determines that the applicable performance condition related to the RSUs was achieved for 2019, subject to the Compensation Committee's approval, the related RSUs will vest (the "Vesting Date") on the later of (1) March     , 2020 or (2) the vesting date as determined by the Compensation Committee on the Determination Date (such vesting date to be no more than
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four business days after the Determination Date). Each RSU that vests in accordance with the terms of the Program will be paid in one share of the Company's common stock as soon as practicable after (and in all events within two and one-half months after) the Vesting Date.

**Maximum Award** - In no event shall the RSU Award vest with respect to more than 100% of the Total Granted RSUs.

**Cash From Operations** is defined, for the purposes of this award, as cash from operations determined in accordance with GAAP, as adjusted to remove the payment(s) attributable to the accreted interest related to the convertible bond discount.

**Non-GAAP Operating Income** is defined as operating income determined in accordance with GAAP, as adjusted to remove the impact of certain recurring and non-recurring expenses, in each case consistent with the determination of non-GAAP operating income in the Company's financial reporting.

**Non-GAAP Net Income** is defined as net income determined in accordance with GAAP, as adjusted to remove the impact of certain expenses and gains and the tax effect of these adjustments, in each case consistent with the determination of non-GAAP net income in the Company's financial reporting.

**Adjustments** - The results will be adjusted for certain material items which are not included in the original calculation of the performance targets as follows:

- (a) Bookings achieved in 2019 and revenue deferred from 2019 into a subsequent reporting period will be included in calculation of the achievement of the performance metrics; and
- (b) Revenue and operating income from each acquisition completed during 2019 will be used to calculate the achievement of the performance metrics to the extent that such revenue and operating income are generated through sales by Company sales channels existing prior to the completion each such acquisition; revenue and operating income generated by sales channels acquired as part of each such acquisition will not be included (Company sales channels shall be defined as all existing sales channels, both direct and indirect, that sell Company products in advance of the acquisition); and
- (c) All performance metrics targets shall be adjusted using the January 2019 currency exchange rates used in the preparation of the Company's 2019 Annual Operating Plan; and
- (d) The annual targets will be adjusted for any dispositions of a business or product line that may occur during the calendar year, with the non-GAAP operating income and revenue targets modified by excluding the revenue and non-GAAP direct operating income of the disposed business unit or product line as if the disposed business unit/product line had not been part of the annual plan from the beginning of the year, and no revenue or non-GAAP direct operating income from the disposed business will be included in the actual results for the year. Non-GAAP direct operating income is defined as non-GAAP operating income excluding indirect cost allocations.

The number of RSUs that vest (if any) will be rounded down to the nearest whole share, and is subject to your continued employment in good standing through the date of vesting. Any portion of the award that does not vest (including as a result of the failure to satisfy either or both of the Conditions or the failure to achieve the target level of performance indicated above) will terminate and you will have no rights with respect thereto.

#### **Other Terms**

##### **Program Participants**

Participants in this Program are not eligible for participation in other variable compensation arrangement,

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program or plan, such as commission-based plans or other similar plans, for 2019.

#### **Leaves of Absences**

Periods of leave of absence will be considered when determining the vesting of the RSU Award. Specifically, RSU vesting will (unless otherwise required by applicable law) be calculated on a pro-rata basis excluding any leave of absence period(s) during the applicable Program Year.

#### **Termination of Employment**

Except as may otherwise be expressly provided below, you will have no right to any bonus for 2019 and no right to any payment with respect to your RSUs for 2019 (and your RSUs will automatically and immediately terminate and you will have no right with respect thereto) should you cease to be employed by the Company or one of its subsidiaries before the Vesting Date set forth above (regardless of the reason for such termination of employment).

Notwithstanding anything to the contrary in the Award Agreement or your written employment agreement (if any) with the Company, if you are involuntarily terminated Without Cause or are terminated for Good Reason outside of a Change of Control (as these terms are defined in the applicable employment agreement), you will be eligible for pro-rata vesting of your RSUs related to this Program. The pro-rata RSU vesting will be determined with respect to the number of RSUs that would have vested under this Program had your employment continued through the Vesting Date, multiplied by a fraction (x) the numerator of which is the number of whole months you were employed by the Company during 2019, and (y) the denominator of which is twelve. Payment of such pro-rata amount will be made at the same time that payment would have been made had you continued to be employed through the Vesting Date. In the event that you are entitled to a pro-rata payment of your RSUs, payment may, at EFI's discretion, be made in cash (as opposed to shares or other property) with the cash payment in respect of a vested RSU to equal (subject to applicable tax withholding) the closing price of a share of EFI common stock on the Determination Date.

With respect to any RSUs granted under this Program, in the event of any conflict between the provisions of your employment agreement regarding acceleration of performance equity outside of a Change of Control and this Program, this Program shall control.

#### **No Right to Continued Employment**

Nothing contained in this Program, the RSUs, or any related document constitutes an employment or service commitment by the Company (or any affiliate), affects your status (if you are employed at will) as an employee at will who is subject to termination at any time and for any reason, confers upon you any right to remain employed by or in service to the Company (or any affiliate), or interferes in any way with the right of the Company (or any affiliate) to terminate your employment or to change your compensation or other terms of employment at any time.

#### **Program Administration and Interpretation**

With respect to EFI's executive officers, the Program will be administered by, and interpretation of the Program, as it may apply to any one individual person, matter or circumstance, will be made by the Compensation Committee (the "Program Administrator"). This Program is not intended and shall not be construed to imply an employment contract between EFI and any of its employees. In the event of any conflict between the provisions of the Program and the Award Agreement, this Program shall control. All actions taken and all interpretations and determinations made by the Program Administrator in respect of such documents and matters shall be conclusive and binding on all persons and shall be given the maximum deference permitted by law.

#### **Clawback Policy**

This Program, the RSU Award, any securities or other consideration you may receive in payment of or with respect to the RSU Award, as well as any bonus opportunity under this Program, is subject to the terms of the EFI recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or

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forfeiture of your bonus, awards or any shares of stock or other cash or property received with respect to your bonus or awards (including any value received from a disposition of any shares of stock you may receive in payment of the RSU Award).

**Construction**

This Program and the RSU Award contemplated above are also intended to satisfy, and not be subject to any tax, penalty or interest under, Section 409A of the Internal Revenue Code. These arrangements shall be construed in accordance with such intents.

**Program Changes and Duration of the Program**

This Program is effective as of January 1, 2019. It supersedes all prior performance based bonus programs and shall not be modified or terminated unless authorized in writing by the Program Administrator and/or approved by the Compensation Committee. The Company reserves the right to modify, change or terminate the Program at any time including to revise goals, corporate objectives or to correct bona fide errors in the Program, or for any other reason. Notices of such changes will be made in writing or via electronic mail to all Participants affected by such changes.

These terms apply to the Program Year 2019 only and your bonus eligibility, targets, and any unvested RSUs do not carry over to the following year.

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***By signing below, you acknowledge and accept that the potential value of your award is subject to market risk and any decline in EFI's common stock price may result in a lower realizable value upon vesting. You agree that any decline in the stock price impacting your bonus shall not be the responsibility of the Company and shall not constitute Good Reason under your employment agreement. You agree that your award is subject to termination as described above, and that you may not be eligible for any cash bonus with respect to 2019.***

***I have read and understand the terms of this Program and the documents referred to herein, I acknowledge and agree to the preceding paragraph and to all of the terms and conditions of this Program and such other documents.***

\_\_\_\_\_  
[Participant Name]

\_\_\_\_\_  
[Date]



**[NO EMPLOYMENT AGREEMENT]  
EFI 2019 Bonus Program**



We are pleased to offer you participation in the EFI 2019 Bonus Program (the "Program") on the terms set forth below.

Each participant (the "Participant") in the Program will, provided that the Participant remains employed by EFI through the date of grant of such awards, be granted an award of restricted stock units that is subject to vesting requirements based on the performance of Electronics For Imaging, Inc. ("EFI" or the "Company") for 2019 and the Participant's continued employment as set forth below.

**Performance Equity Bonus Terms**

- Per the approval by the Company's Board of Directors' Compensation Committee (the "Compensation Committee") and subject to your continued employment with the Company through the date of grant, you will be granted a performance-based restricted stock unit ("RSU") award with respect to the Program. The RSU award (the "RSU Award") will be subject to vesting based on the achievement of the Company performance goals for 2019 as set forth below (the "Program Components") and your continued employment as set forth below.
- The total number of RSUs that you will be granted will equal your "Equity Bonus Eligibility" amount (expressed in U.S. Dollars) set forth below, divided by the closing price of EFI's common stock on March \_\_, 2019. The total number of RSUs granted will be rounded down to the nearest whole share.
- The RSUs will be granted under and will be subject to the terms and conditions of EFI's 2017 Equity Incentive Plan, as amended (the "2017 Equity Plan") and the restricted stock unit award notice and restricted stock unit award agreement used by EFI to evidence RSU awards granted under the 2017 Equity Plan (the "Award Agreement"), except as otherwise expressly set forth herein. Each RSU Award will have a grant date that is the grant date that the Compensation Committee approves for such award (the "Grant Date"). The RSU award is also subject to the individual and other share limits of the 2017 Plan.
- During the first quarter of 2020, the Program Administrator (as defined below) will determine whether (and the extent to which) the performance conditions applicable to the RSUs were achieved for 2019, subject to approval by the Compensation Committee (the date of the Compensation Committee's approval is referred to as the "Determination Date"). Subject to your continued employment by the Company through the applicable Vesting Date, if the Program Administrator determines that the applicable performance condition related to the RSUs was achieved for 2019, subject to the Compensation Committee's approval, the related RSUs will vest (the "Vesting Date") on the later of (1) March \_\_, 2020 or (2) the vesting date as determined by the Compensation Committee on the Determination Date (such vesting date to be no more than four business days after the Determination Date). Each RSU that vests in accordance with the terms of the Program will be paid in one share of the Company's common stock as soon as practicable after (and in all events within two and one-half months after) the Vesting Date.



## Performance Targets and Equity Bonus Target

Your Equity Bonus Eligibility amount is set forth below.

Equity Bonus Eligibility: [ \$ ]

The performance goals applicable to your equity bonus opportunity are set forth below.

Program Component Performance Metric	Component % of Total Award	Threshold 0% Vesting	Target 100% Vesting
***** (millions)	__%	\$ __M	\$ __M
***** (millions)	__%	\$ __M	\$ __M
Cash from Operations as a Percentage of Non-GAAP Net Income	__%	__%	__%

The total number of RSUs that will vest will be determined based on the Company's performance in 2019 for each Program Component, as certified by the Compensation Committee. For each Program Component, if the Company's performance for that Program Component is at or above the threshold level set forth above, a percentage of RSUs associated with that Program Component will vest on a pro-rata, straight-line basis between 0% and 100%, starting at the threshold level for that Program Component up to the target level for that Program Component. In other words, no percentage of RSUs associated with a particular Program Component will vest based on Company performance in 2019 for that Program Component at or below the threshold level; from the threshold level, the percentage of RSUs associated with that Program Component that vest will increase on a straight-line basis up to 100% at or above the target level, and will be determined based on the actual level of the Company's performance for that Program Component achieved for 2019, as certified by the Compensation Committee.

The total number of RSUs that vest will be calculated by *multiplying* (a) the vesting percentage for each Program Component of your award *times* (b) the number of RSUs associated with the corresponding Program Component based on the Component Percentage of Total Award set forth above and the actual number of RSUs granted to you in your RSU Award, and (c) adding together the resulting number of RSUs (if any) associated with each Program Component, each rounded down to the nearest whole share. The sum of the numbers described in subsection (c) of the previous sentence shall be the total number of RSUs in your RSU Award that vest.

**Maximum Award** - In no event shall the RSU Award vest with respect to more than 100% of the RSUs subject to such award.

**Cash From Operations** is defined, for the purposes of this award, as cash from operations determined in accordance with GAAP, as adjusted to remove the payment(s) attributable to the accreted interest related to the convertible bond discount.

**Non-GAAP Operating Income** is defined as operating income determined in accordance with GAAP, as adjusted to remove the impact of certain recurring and non-recurring expenses, in each case consistent with the determination of non-GAAP operating income in the Company's financial reporting.

**Non-GAAP Net Income** is defined as net income determined in accordance with GAAP, as adjusted to remove the impact of certain expenses and gains and the tax effect of these adjustments, in each case consistent with the determination of non-GAAP net income in the Company's financial reporting.

**Adjustments** - The results will be adjusted for certain material items, which are not included in the original calculation of the performance targets as follows:

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- (a) Bookings achieved in 2019 and revenue deferred from 2019 into a subsequent reporting period will be included in calculation of the achievement of the performance metrics; and
- (b) Revenue and operating income from each acquisition completed during 2019 will be used to calculate the achievement of the performance metrics to the extent that such revenue and operating income are generated through sales by Company sales channels existing prior to the completion each such acquisition; revenue and operating income generated by sales channels acquired as part of each such acquisition will not be included (Company sales channels shall be defined as all existing sales channels, both direct and indirect, that sell Company products in advance of the acquisition); and
- (c) All performance metrics targets shall be adjusted using the January 2019 currency exchange rates used in the preparation of the Company's 2019 Annual Operating Plan; and
- (d) The annual targets will be adjusted for any dispositions of a business or product line that may occur during the calendar year, with the non-GAAP operating income and revenue targets modified by excluding the revenue and non-GAAP direct operating income of the disposed business unit or product line as if the disposed business unit/product line had not been part of the annual plan from the beginning of the year, and no revenue or non-GAAP direct operating income from the disposed business will be included in the actual results for the year. Non-GAAP direct operating income is defined as non-GAAP operating income excluding indirect cost allocations.

The number of RSUs that vest (if any) will be rounded down to the nearest whole share, and is subject to your continued employment in good standing through the date of vesting. Any portion of the award that does not vest (including as a result of the failure to satisfy either or both of the Conditions or the failure to achieve the target level of performance indicated above) will terminate and you will have no rights with respect thereto.

## **Other Terms**

### **Program Participants**

Participants in this Program are not eligible for participation in other variable compensation arrangement, program or plan, such as commission-based plans or other similar plans, for 2019.

### **Leaves of Absences**

Periods of leave of absence will be considered when determining the vesting of the RSU Award. Specifically, RSU vesting will (unless otherwise required by applicable law) be calculated on a pro-rata basis excluding any leave of absence period(s) during the applicable Program Year.

### **Termination of Employment**

Except as may otherwise be expressly provided below, in the Award Agreement, or your written employment agreement (if any) with the Company, you will have no right to any bonus for 2019 and no right to any payment with respect to your RSUs for 2019 (and your RSUs will automatically and immediately terminate and you will have no right with respect thereto) should you cease to be employed by the Company or one of its subsidiaries before the Vesting Date set forth above (regardless of the reason for such termination of employment).

### **No Right to Continued Employment**

Nothing contained in this Program, the RSUs, or any related document constitutes an employment or service commitment by the Company (or any affiliate), affects your status (if you are employed at will) as an employee at will who is subject to termination at any time and for any reason, confers upon you any right to remain employed by or in service to the Company (or any affiliate), or interferes in any way with the right of the Company (or any affiliate) to terminate your employment or to change your compensation or other terms of employment at any time.

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**Program Administration and Interpretation**

The Program will be administered by, and interpretation of the Program, as it may apply to any one individual person, matter or circumstance, will be made by the CEO and Vice President of Human Resources (the "Program Administrator") unless otherwise provided by the Compensation Committee or as otherwise required by applicable law or listing rules. This Program is not intended and shall not be construed to imply an employment contract between EFI and any of its employees. In the event of any conflict between the provisions of the Program and the Award Agreement, this Program shall control. All actions taken and all interpretations and determinations made by the Program Administrator in respect of such documents and matters shall be conclusive and binding on all persons and shall be given the maximum deference permitted by law.

**Clawback Policy**

This Program, the RSU Award, any securities or other consideration you may receive in payment of or with respect to the RSU Award, as well as any bonus opportunity under this Program, is subject to the terms of the EFI recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of your bonus, awards or any shares of stock or other cash or property received with respect to your bonus or awards (including any value received from a disposition of any shares of stock you may receive in payment of the RSU Award).

**Construction**

This Program and the RSU Award contemplated above are also intended to satisfy, and not be subject to any tax, penalty or interest under, Section 409A of the Internal Revenue Code. These arrangements shall be construed in accordance with such intents.

**Program Changes and Duration of the Program**

This Program is effective as of January 1, 2019. It supersedes all prior performance based bonus programs and shall not be modified or terminated unless authorized in writing by the Program Administrator and/or approved by the Compensation Committee. The Company reserves the right to modify, change or terminate the Program at any time including to revise goals, corporate objectives or to correct bona fide errors in the Program, or for any other reason. Notices of such changes will be made in writing or via electronic mail to all Participants affected by such changes.

These terms apply to the Program Year 2019 only and your bonus eligibility, targets, and any unvested RSUs do not carry over to the following year.

***By signing below, you acknowledge and accept that the potential value of your award is subject to market risk and any decline in EFI's common stock price may result in a lower realizable value upon vesting. You agree that any decline in the stock price impacting your bonus shall not be the responsibility of the Company and shall not constitute Good Reason under your employment agreement. You agree that your award is subject to termination as described above, and that you may not be eligible for any cash bonus with respect to 2019.***

***I have read and understand the terms of this Program and the documents referred to herein, I acknowledge and agree to the preceding paragraph and to all of the terms and conditions of this Program and such other documents.***

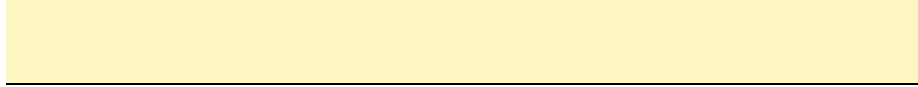
\_\_\_\_\_  
[Participant Name]

\_\_\_\_\_  
[Date]

\_\_\_\_\_



**[WITH EMPLOYMENT AGREEMENT]  
EFI 2019 Bonus Program**



We are pleased to offer you participation in the EFI 2019 Bonus Program (the "Program") on the terms set forth below.

Each participant (the "Participant") in the Program will, provided that the Participant remains employed by EFI through the date of grant of such awards, be granted an award of restricted stock units that is subject to vesting requirements based on the performance of Electronics For Imaging, Inc. ("EFI" or the "Company") for 2019 and the Participant's continued employment as set forth below.

**Performance Equity Bonus Terms**

- Per the approval by the Company's Board of Directors' Compensation Committee (the "Compensation Committee") and subject to your continued employment with the Company through the date of grant, you will be granted a performance-based restricted stock unit ("RSU") award with respect to the Program. The RSU award (the "RSU Award") will be subject to vesting based on the achievement of the Company performance goals for 2019 as set forth below (the "Program Components") and your continued employment as set forth below.
- The total number of RSUs that you will be granted will equal your "Equity Bonus Eligibility" amount (expressed in U.S. Dollars) set forth below, divided by the closing price of EFI's common stock on March     , 2019. The total number of RSUs granted will be rounded down to the nearest whole share.
- The RSUs will be granted under and will be subject to the terms and conditions of EFI's 2017 Equity Incentive Plan, as amended (the "2017 Equity Plan") and the attached restricted stock unit award notice and restricted stock unit award agreement used by EFI to evidence RSU awards granted under the 2017 Equity Plan (the "Award Agreement"), except as otherwise expressly set forth herein. Each RSU Award will have a grant date that is the grant date that the Compensation Committee approves for such award (the "Grant Date"). The RSU award is also subject to the individual and other share limits of the 2017 Plan.
- During the first quarter of 2020, the Program Administrator (as defined below) will determine whether (and the extent to which) the performance conditions applicable to the RSUs were achieved for 2019, subject to approval by the Compensation Committee (the date of the Compensation Committee's approval is referred to as the "Determination Date"). Subject to your continued employment by the Company through the applicable Vesting Date, if the Program Administrator determines that the applicable performance condition related to the RSUs was achieved for 2019, subject to the Compensation Committee's approval, the related RSUs will vest (the "Vesting Date") on the later of (1) March     , 2020 or (2) the vesting date as determined by the Compensation Committee on the Determination Date (such vesting date to be no more than four business days after the Determination Date). Each RSU that vests in accordance with the terms of the Program will be paid in one share of the Company's common stock as soon as practicable after (and in all events within two and one-half months after) the Vesting Date.



## Performance Targets and Equity Bonus Target

Your Equity Bonus Eligibility amount is set forth below.

Equity Bonus Eligibility: [ \$ ]

The performance goals applicable to your equity bonus opportunity are set forth below.

Program Component Performance Metric	Component % of Total Award	Threshold 0% Vesting	Target 100% Vesting
***** (millions)	__%	\$ __M	\$ __M
***** (millions)	__%	\$ __M	\$ __M
<b>Cash from Operations as a Percentage of Non-GAAP Net Income</b>	__%	__%	__%

The total number of RSUs that will vest will be determined based on the Company's performance in 2019 for each Program Component, as certified by the Compensation Committee. For each Program Component, if the Company's performance for that Program Component is at or above the threshold level set forth above, a percentage of RSUs associated with that Program Component will vest on a pro-rata, straight-line basis between 0% and 100%, starting at the threshold level for that Program Component up to the target level for that Program Component. In other words, no percentage of RSUs associated with a particular Program Component will vest based on Company performance in 2019 for that Program Component at or below the threshold level; from the threshold level, the percentage of RSUs associated with that Program Component that vest will increase on a straight-line basis up to 100% at or above the target level, and will be determined based on the actual level of the Company's performance for that Program Component achieved for 2019, as certified by the Compensation Committee.

The total number of RSUs that vest will be calculated by multiplying (a) the vesting percentage for each Program Component of your award times (b) the number of RSUs associated with the corresponding Program Component based on the Component Percentage of Total Award set forth above and the actual number of RSUs granted to you in your RSU Award, and (c) adding together the resulting number of RSUs (if any) associated with each Program Component, each rounded down to the nearest whole share. The sum of the numbers described in subsection (c) of the previous sentence shall be the total number of RSUs in your RSU Award that vest.

**Maximum Award** - In no event shall the RSU Award vest with respect to more than 100% of the RSUs subject to such award.

**Cash From Operations** is defined, for the purposes of this award, as cash from operations determined in accordance with GAAP, as adjusted to remove the payment(s) attributable to the accreted interest related to the convertible bond discount.

**Non-GAAP Operating Income** is defined as operating income determined in accordance with GAAP, as adjusted to remove the impact of certain recurring and non-recurring expenses, in each case consistent with the determination of non-GAAP operating income in the Company's financial reporting.

**Non-GAAP Net Income** is defined as net income determined in accordance with GAAP, as adjusted to remove the impact of certain expenses and gains and the tax effect of these adjustments, in each case consistent with the determination of non-GAAP net income in the Company's financial reporting.

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**Adjustments** - The results will be adjusted for certain material items which are not included in the original calculation of the performance targets as follows:

- (a) Bookings achieved in 2019 and revenue deferred from 2019 into a subsequent reporting period will be included in calculation of the achievement of the performance metrics; and
- (b) Revenue and operating income from each acquisition completed during 2019 will be used to calculate the achievement of the performance metrics to the extent that such revenue and operating income are generated through sales by Company sales channels existing prior to the completion each such acquisition; revenue and operating income generated by sales channels acquired as part of each such acquisition will not be included (Company sales channels shall be defined as all existing sales channels, both direct and indirect, that sell Company products in advance of the acquisition); and
- (c) All performance metrics targets shall be adjusted using the January 2019 currency exchange rates used in the preparation of the Company's 2019 Annual Operating Plan; and
- (d) The annual targets will be adjusted for any dispositions of a business or product line that may occur during the calendar year, with the non-GAAP operating income and revenue targets modified by excluding the revenue and non-GAAP direct operating income of the disposed business unit or product line as if the disposed business unit/product line had not been part of the annual plan from the beginning of the year, and no revenue or non-GAAP direct operating income from the disposed business will be included in the actual results for the year. Non-GAAP direct operating income is defined as non-GAAP operating income excluding indirect cost allocations.

The number of RSUs that vest (if any) will be rounded down to the nearest whole share, and is subject to your continued employment in good standing through the date of vesting. Any portion of the award that does not vest (including as a result of the failure to satisfy either or both of the Conditions or the failure to achieve the target level of performance indicated above) will terminate and you will have no rights with respect thereto.

## **Other Terms**

### **Program Participants**

Participants in this Program are not eligible for participation in other variable compensation arrangement, program or plan, such as commission-based plans or other similar plans, for 2019.

### **Leaves of Absences**

Periods of leave of absence will be considered when determining the vesting of the RSU Award. Specifically, RSU vesting will (unless otherwise required by applicable law) be calculated on a pro-rata basis excluding any leave of absence period(s) during the applicable Program Year.

### **Termination of Employment**

Except as may otherwise be expressly provided below, in the Award Agreement, or your written employment agreement (if any) with the Company, you will have no right to any bonus for 2019 and no right to any payment with respect to your RSUs for 2019 (and your RSUs will automatically and immediately terminate and you will have no right with respect thereto) should you cease to be employed by the Company or one of its subsidiaries before the Vesting Date set forth above (regardless of the reason for such termination of employment).

Notwithstanding anything to the contrary in the Award Agreement or your written employment agreement (if any) with the Company, if you are involuntarily terminated Without Cause or are terminated for Good Reason outside of a Change of Control (as these terms are defined in the applicable employment agreement), you will be eligible for pro-rata vesting of your RSUs related to this Program. The pro-rata

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RSU vesting will be determined with respect to the number of RSUs that would have vested under this Program had your employment continued through the Vesting Date, multiplied by a fraction (x) the numerator of which is the number of whole months you were employed by the Company during 2019, and (y) the denominator of which is twelve. Payment of such pro-rata amount will be made at the same time that payment would have been made had you continued to be employed through the Vesting Date. In the event that you are entitled to a pro-rata payment of your RSUs, payment may, at EFI's discretion, be made in cash (as opposed to shares or other property) with the cash payment in respect of a vested RSU to equal (subject to applicable tax withholding) the closing price of a share of EFI common stock on the Determination Date.

With respect to any RSUs granted under this Program, in the event of any conflict between the provisions of your employment agreement regarding acceleration of performance equity outside of a Change of Control and this Program, this Program shall control.

#### **No Right to Continued Employment**

Nothing contained in this Program, the RSUs, or any related document constitutes an employment or service commitment by the Company (or any affiliate), affects your status (if you are employed at will) as an employee at will who is subject to termination at any time and for any reason, confers upon you any right to remain employed by or in service to the Company (or any affiliate), or interferes in any way with the right of the Company (or any affiliate) to terminate your employment or to change your compensation or other terms of employment at any time.

#### **Program Administration and Interpretation**

The Program will be administered by, and interpretation of the Program, as it may apply to any one individual person, matter or circumstance, will be made by the CEO and Vice President of Human Resources (the "Program Administrator") unless otherwise provided by the Compensation Committee or as otherwise required by applicable law or listing rules. This Program is not intended and shall not be construed to imply an employment contract between EFI and any of its employees. In the event of any conflict between the provisions of the Program and the RSU Agreement, this Program shall control. All actions taken and all interpretations and determinations made by the Program Administrator in respect of such documents and matters shall be conclusive and binding on all persons and shall be given the maximum deference permitted by law.

#### **Clawback Policy**

This Program, the RSU Award, any securities or other consideration you may receive in payment of or with respect to the RSU Award, as well as any bonus opportunity under this Program, is subject to the terms of the EFI recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of your bonus, awards or any shares of stock or other cash or property received with respect to your bonus or awards (including any value received from a disposition of any shares of stock you may receive in payment of the RSU Award).

#### **Construction**

This Program and the RSU Award contemplated above are also intended to satisfy, and not be subject to any tax, penalty or interest under, Section 409A of the Internal Revenue Code. These arrangements shall be construed in accordance with such intents.

#### **Program Changes and Duration of the Program**

This Program is effective as of January 1, 2019. It supersedes all prior performance based bonus programs and shall not be modified or terminated unless authorized in writing by the Program Administrator and/or approved by the Compensation Committee. The Company reserves the right to modify, change or terminate the Program at any time including to revise goals, corporate objectives or to correct bona fide errors in the Program, or for any other reason. Notices of such changes will be made in writing or via electronic mail to all Participants affected by such changes.

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These terms apply to the Program Year 2019 only and your bonus eligibility, targets, and any unvested RSUs do not carry over to the following year.

***By signing below, you acknowledge and accept that the potential value of your award is subject to market risk and any decline in EFI's common stock price may result in a lower realizable value upon vesting. You agree that any decline in the stock price impacting your bonus shall not be the responsibility of the Company and shall not constitute Good Reason under your employment agreement. You agree that your award is subject to termination as described above, and that you may not be eligible for any cash bonus with respect to 2019.***

***I have read and understand the terms of this Program and the documents referred to herein, I acknowledge and agree to the preceding paragraph and to all of the terms and conditions of this Program and such other documents.***

\_\_\_\_\_  
[Participant Name]

\_\_\_\_\_  
[Date]

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William Muir, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Electronics For Imaging, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ William Muir

William Muir

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marc Olin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Electronics For Imaging, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Marc Olin

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Marc Olin

Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Electronics For Imaging, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2019

/s/ William Muir

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William Muir

Chief Executive Officer

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Electronics For Imaging, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2019

/s/ Marc Olin

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Marc Olin

Chief Financial Officer