EDGAR Online

STRATASYS LTD.

FORM 6-K
(Report of Foreign Issuer)

Filed 08/07/14 for the Period Ending 08/07/14

Address	7665 COMMERCE WAY EDEN PRAIRIE, MN 55344
Telephone	972-8-931-4314
CIK	0001517396
Symbol	SSYS
SIC Code	3577 - Computer Peripheral Equipment, Not Elsewhere Classified
Industry	Computer Peripherals
Sector	Technology
Fiscal Year	12/31

Powered By EDGAR Online
http://www.edgar-online.com
© Copyright 2014, EDGAR Online, Inc. All Rights Reserved.
Distribution and use of this document restricted under EDGAR Online, Inc. Terms of Use.

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

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2014

Commission File Number 001-35751

STRATASYS LTD.

(Translation of registrant's name into English)

c/o Stratasys, Inc.	**2 Holtzman Street, Science Park**
7665 Commerce Way	**P.O. Box 2496**
Eden Prairie, Minnesota 55344	**Rehovot, Israel 76124**

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Note : Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):____

The contents of this Report of Foreign Private Issuer on Form 6-K (this " Form 6-K "), including Exhibits 99.1, 99.2 and 101 annexed hereto, are incorporated by reference into the Registrant's registration statements on Form S-8, SEC file numbers 333-185240 and 333-190963, filed by the Registrant with the SEC on December 3, 2012 and September 3, 2013, respectively, and the Registrant's registration statement on Form F-3, SEC file number 333-190965, filed by the Registrant on September 3, 2013 (as supplemented by any prospectus supplements filed on or prior to the date of this Form 6-K), and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished .

CONTENTS

On August 7, 2014, Stratasys Ltd., or Stratasys, released its financial results for the three and six months ended June 30, 2014.

Attached hereto as Exhibit 99.1 are the unaudited, condensed consolidated financial statements of Stratasys for the three and six months ended June 30, 2014 and 2013 (including the notes thereto) (the " Q2 2014 Financial Statements ").

Attached hereto as Exhibit 99.2 is Stratasys' review of its results of operations and financial condition for the three and six months ended June 30, 2014 and 2013, including the following:

(i) Operating and Financial Review and Prospects
(ii) Quantitative and Qualitative Disclosures About Market Risk
(iii) Legal Proceedings Update

Attached hereto as Exhibit 99.3 are updated Risk Factors that relate to Stratasys and an investment in Stratasys' ordinary shares.

Attached hereto as Exhibit 101 are the Q2 2014 Financial Statements, formatted in XBRL (eXtensible Business Reporting Language), consisting of the following sub-exhibits:

Exhibit Number	Document Description
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document

The XBRL related information in Exhibit 101 to this Form 6-K shall not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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.

	STRATASYS LTD.
Dated: August 7, 2014	By: /s/ Erez Simha
	Name: Erez Simha
	Title: Chief Financial Officer and Chief Operating Officer

Exhibit 99.1

STRATASYS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2014

(UNAUDITED)

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014
(UNAUDITED)

Item	Page
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Comprehensive Income	4
Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6 to 15

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

in thousands	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 502,314	$ 414,088
Short-term bank deposits	75,622	200,370
Accounts receivable, net	113,583	99,200
Inventories	114,346	88,406
Investment in sales-type leases, net	6,651	6,696
Prepaid expenses	7,966	5,470
Deferred income taxes	22,448	16,501
Other current assets	25,325	21,398
Total current assets	868,255	852,129
Non-current assets		
Goodwill	1,203,296	1,195,891
Other intangible assets, net	587,566	622,330
Investment in sales-type leases	13,007	11,219
Amounts funded in respect of employee rights upon retirement	3,369	3,166
Property, plant and equipment, net	110,848	91,005
Other non-current assets	4,827	6,481
Total non-current assets	1,922,913	1,930,092
Total assets	$ 2,791,168	$ 2,782,221
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 38,856	$ 35,375
Accrued expenses and other current liabilities	32,919	32,849
Accrued compensation and related benefits	27,427	21,441
Earn-out obligations	11,458	12,027
Unearned revenues	41,895	36,033
Total current liabilities	152,555	137,725
Non-current liabilities		
Employee rights upon retirement	4,999	4,683
Earn-out obligation - long term	-	16,998
Deferred tax liabilities	97,955	105,901
Unearned revenues - long term	4,618	3,315
Other non-current liabilities	10,870	13,812
Total liabilities	270,997	282,434
Contingencies, see note 9		

Equity		
Ordinary shares, NIS 0.01 par value, authorized 180,000 shares; 49,436 and 49,211 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	134	133
Additional paid-in capital	2,428,978	2,412,197
Retained earnings	89,463	85,549
Accumulated other comprehensive income	1,596	1,908
Total equity	2,520,171	2,499,787
Total liabilities and equity	$ 2,791,168	$ 2,782,221

See accompanying notes to condensed consolidated financial statements.

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Operations and Comprehensive Income

in thousands, except per share data	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net sales				
Products	$ 154,090	$ 90,213	$ 283,342	$ 172,023
Services	24,375	16,272	46,064	31,669
	178,465	106,485	329,406	203,692
Cost of sales				
Products	73,394	45,731	134,416	94,774
Services	13,437	10,349	25,628	21,139
	86,831	56,080	160,044	115,913
Gross profit	91,634	50,405	169,362	87,779
Operating expenses				
Research and development, net	18,957	10,337	35,728	21,126
Selling, general and administrative	77,929	42,665	145,546	85,990
Change in fair value of earn-out obligation	628	-	(6,867)	-
	97,514	53,002	174,407	107,116
Operating loss	(5,880)	(2,597)	(5,045)	(19,337)
Other income (expense)	337	138	(999)	652
Loss before income taxes	(5,543)	(2,459)	(6,044)	(18,685)
Income taxes	(5,370)	326	(9,958)	(417)
Net income (loss)	$ (173)	$ (2,785)	$ 3,914	$ (18,268)
Net income attributable to non-controlling interest	-	15	-	68
Net income (loss) attributable to Stratasys Ltd.	$ (173)	$ (2,800)	$ 3,914	$ (18,336)
Net income (loss) per ordinary share attributable to Stratasys Ltd.				
Basic	$ (0.00)	$ (0.07)	$ 0.08	$ (0.47)
Diluted	$ (0.00)	$ (0.07)	$ 0.08	$ (0.47)
Weighted average ordinary shares outstanding				
Basic	49,373	38,781	49,323	38,637
Diluted	49,373	38,781	51,238	38,637
Comprehensive Income (loss)				
Net income (loss)	$ (173)	$ (2,785)	$ 3,914	$ (18,268)
Other comprehensive income (loss), net of tax:				
Losses on securities reclassified into earnings	-	-	168	-
Foreign currency translation adjustments	(126)	13	(524)	(355)
Fair value adjustments on derivatives designated as cash flow hedges	173	-	44	-
Other comprehensive income (loss), net of tax	47	13	(312)	(355)

Comprehensive income (loss)	(126)	(2,772)	3,602	(18,623)
Less: comprehensive loss attributable to non-controlling interest	-	(454)	-	(339)
Comprehensive income (loss) attributable to Stratasys Ltd.	$ (126)	$ (2,318)	$ 3,602	$ (18,284)

See accompanying notes to condensed consolidated financial statements.

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Cash Flows

in thousands	Six Months Ended June 30, 2014	2013
Cash flows from operating activities		
Net income (loss)	$ 3,914	$ (18,268)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	48,579	46,975
Stock-based compensation	13,814	10,851
Deferred income taxes	(13,440)	(9,393)
Change in fair value of earn-out obligations	(6,867)	-
Excess tax benefit from stock options	(582)	(986)
Other non-cash items	419	(122)
Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions:		
Accounts receivable, net	(13,126)	(19,099)
Inventories	(29,696)	(9,706)
Net investment in sales-type leases	(1,744)	(1,887)
Other receivables and prepaid expenses	(6,335)	399
Other non-current assets	(413)	(110)
Accounts payable	3,234	(11,035)
Other current liabilities	8,152	923
Unearned revenues	6,956	5,816
Other non-current liabilities	(3,247)	3,442
Net cash provided by (used in) operating activities	9,618	(2,200)
Cash flows from investing activities		
Change in short-term bank deposits, net	124,748	20,063
Purchase of property, plant and equipment	(23,509)	(9,909)
Cash paid for acquisitions	(12,042)	-
Acquisition of intangible assets	(2,147)	(611)
Proceeds from sales of marketable securities	1,634	-
Proceeds from sale of property, plant and equipment	219	-
Other investing activities	(300)	38
Net cash provided by investing activities	88,603	9,581
Cash flows from financing activities		
Payment of earn-out obligations	(10,795)	-
Proceeds from exercise of stock options	2,387	5,988
Acquisition of non-controlling interest	(2,170)	-
Excess tax benefit from stock options	582	986
Net cash (used in) provided by financing activities	(9,996)	6,974
Effect of exchange rate changes on cash and cash equivalents	1	(120)
Net change in cash and cash equivalents	88,226	14,235
Cash and cash equivalents, beginning of period	414,088	133,826

Cash and cash equivalents, end of period	$ 502,314	$ 148,061
Supplemental disclosures of cash flow information:		
Transfer of fixed assets to inventory	148	83
Transfer of inventory to fixed assets	4,096	3,068

See accompanying notes to condensed consolidated financial statements.

Note 1. Basis of Presentation and Consolidation

Stratasys Ltd. and its subsidiaries (collectively the "Company") is a leading global provider of additive manufacturing ("AM") solutions for the creation of parts used in the processes of designing and manufacturing products and for the direct manufacture of end parts. The Company's systems include desktop 3D printers for idea and design development, various systems for rapid prototyping ("RP") and large production systems for direct digital manufacturing ("DDM"). The Company also develops, manufactures and sells materials for use with its systems and provides various services to its customers, including paid parts services.

The condensed consolidated interim financial statements include the accounts of Stratasys Ltd. and its subsidiaries. All intercompany accounts and transactions, including profits from intercompany sales not yet realized outside the Company, have been eliminated in consolidation.

The consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. Certain prior period amounts have been reclassified to conform to the current year presentation. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. Certain financial information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. The reader is referred to the audited consolidated financial statements and notes thereto for the year ended December 31, 2013, filed as part of the Company's Annual Report on Form 20-F for such year.

Recently adopted and issued accounting pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU"), issued as a new topic, Accounting Standards Codification ("ASC") topic 606. The ASU supersedes the current revenue recognition requirements in ASC 605, *Revenue Recognition* . The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with earlier adoption not permitted. This ASU can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In July 2013, the FASB, issued an accounting standard update, under which an entity must present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, in the absence of certain conditions. This ASU was effective for the Company for the three and six months ended June 30, 2014. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Note 2. Acquisitions

MakerBot transaction

On August 15, 2013 (“MakerBot transaction date”) the Company acquired privately held Cooperation Technology Corporation (“MakerBot”) for an aggregate purchase price of $493.7 million (“MakerBot transaction”), which was calculated based on the Company’s share price of $97.46 as of the MakerBot transaction date.

The acquisition consideration was attributed to net assets on the basis of the fair value of assets acquired and liabilities assumed based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. The estimated fair values are based on the information that was available as of June 30, 2014 and may be subject to changes.

MakerBot stockholders also could qualify for two earn-out payments. The first was for the six-month period ended December 31, 2013, which amounted to $10.8 million and which was paid in cash during April 2014. The second earn-out period is for the year ended December 31, 2014, for which MakerBot stockholders could qualify for a total payment of up to 0.8 million shares, depending on the level of achievement of financial metrics for the period. The second earn-out payment, if earned, will be made in the Company’s shares or cash, or a combination thereof, at the Company’s discretion.

The fair value of the earn-out obligations for the second earn-out payment is based on management’s assessment of whether, and at what level, the financial metrics will be achieved, and the present value factors associated with the timing of the payments. Management re-measures the fair value of the earn-out obligations at the end of each reporting period, with any changes in fair value being recorded in that period’s statement of operations. The fair value was estimated based on a Monte Carlo simulation, under which many scenarios are computed to measure possible outcomes of the financial metrics and the likelihood of occurrence. The resultant probability-weighted financial metrics are then applied to the earn-out formula to determine the cash flows under the earn-out. Those cash flows were then discounted using rates of the yields for U.S. treasury bonds with similar terms to maturity. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. The Company estimates the earn-out obligation for the second earn-out period to be $11.4 million, as of June 30, 2014.

Certain MakerBot employees participate in a performance bonus plan in connection with the MakerBot transaction. Participating employees are entitled, contingent on certain continuing employment conditions, to bonus payments of compensation that in the aggregate will equal, dollar-for-dollar, the actual amounts determined in the earn-out calculation.

Interfacial Solutions

In April 2014, the Company acquired certain assets of Interfacial Solutions LLC (“Interfacial Solutions”), a privately held provider of thermoplastics research and development and production services. This transaction is designed to strengthen the Company’s materials research and development skills and enable it to become vertically integrated in material development and manufacturing and also increase materials production space and capacity.

The Company accounted for this transaction as business combination. The acquisition consideration was attributed to net assets on the basis of the fair value of assets acquired and liabilities assumed based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

Interfacial Solutions results of operations were included in the Company’s condensed consolidated financial statements commencing April 2014.

Other financial information giving effect to the acquisition has not been provided as the acquisition is not material.

Other transactions

In October 2013, the Company acquired all non-controlling interests of its investment in Stratasys Japan Co. Ltd., for a total purchase price of approximately $2 million which was paid during the first quarter of 2014. Prior to the acquisition, the Company owned 51% of the Japanese company. The excess of the purchase price over the carrying value of the non-controlling interests was credited to additional paid-in capital. This acquisition enabled the Company to expand its Japanese operations.

In January 2014, the Company purchased certain assets, including customer service contracts and inventory, from its local channel partner in South Korea, Sysopt Engineering Co. Ltd. The acquisition enables the Company to expand its South Korean operations.

Subsequent transactions

Solid Concepts transaction

On July 14, 2014, the Company completed the acquisition of 100% of the outstanding shares of Solid Concepts Inc. ("Solid Concepts"), an independent additive manufacturing service bureau for a total consideration of approximately $190 million (subject to adjustment, as described below), of which $29 million was paid in cash, $103 million was paid in the Company's shares, $4 million was deferred for six months and will be paid in cash and the remaining $54 million will be paid in three separate annual installments.

Under the terms of the definitive agreement, certain of Solid Concepts' employees may also qualify for retention-related and other payments of $72 million, of which, $15 million was paid in cash upon closing, and the remaining $57 million will be paid in three separate annual installments.

Subject to certain requirements for cash payments, the Company retains the discretion to settle any of the amounts payable under the definitive agreement in its shares, cash or any combination of the two. These amounts are also subject to certain adjustments based on the Company's share price.

This transaction, together with the Harvest transaction, which is described below, are expected to enable the Company to expand its existing digital manufacturing service business, to create a leading strategic platform to meet a broad range of customers' additive manufacturing needs and provide opportunities to leverage manufacturing services capabilities.

Due to the complexity of the acquisition and since the acquisition was closed after the reporting date and a short period of time prior to issuing these financial statements, the initial accounting treatment for the business combination is incomplete at this stage and therefore, certain amounts presented above are subject to adjustments. Furthermore at this stage, it is impracticable to disclose supplemental pro forma information as well as other information required.

Harvest transaction

On August 1 , 2014, the Company completed the acquisition of 100% of the outstanding shares of Harvest Technologies Inc. ("Harvest"), a specialty additive manufacturing service bureau. Under the terms of the definitive agreement with Harvest, certain of Harvest's employees may also qualify for certain retention-related payments.

Other financial information giving effect to the acquisition has not been provided as the acquisition is not material.

MakerBot Europe transaction

On August 1, 2014 the Company acquired certain assets of its Germany-based partner, HAFNER'S BÜRO, which has been MakerBot reseller in Germany. This acquisition will enable the Company to expand its desktop 3D printing operations throughout the European market.

Note 3. Inventories

Inventories consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Finished goods	$ 57,697	$ 42,251
Work-in-process	3,316	164
Raw materials	53,333	45,991
	$ 114,346	$ 88,406

Note 4. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company’s goodwill for the six months ended June 30, 2014, are as follows (in millions):

Goodwill as of December 31, 2013	$ 1,195.9
Goodwill acquired	7.7
Translation differences	(0.3)
Goodwill as of June 30, 2014	$ 1,203.3

Other intangible assets consisted of the following (in thousands):

	June 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technology	$ 474,750	$ 81,007	$ 447,842	$ 54,029
Patents	14,378	7,324	14,065	6,523
Trademarks and trade names	59,046	6,644	59,019	3,817
Customer relationships	102,995	17,452	100,679	10,793
Non-compete agreement	10,843	2,579	10,354	1,249
Capitalized software development costs	17,137	14,092	16,612	13,828
In process research and development	37,515	-	63,998	-
	716,664	$ 129,098	712,569	$ 90,239
Accumulated amortization	129,098		90,239	
Net book value of amortizable intangible assets	$ 587,566		$ 622,330	

In process research and development with a gross carrying value of $26.9 million as of December 31, 2013, of which $23.7 million was acquired in connection with the Makerbot transaction, was launched during the six months ended June 30, 2014 and is now classified as developed technology with a seven-year weighted average life for amortization.

Amortization expense relating to intangible assets for the three-month periods ended June 30, 2014 and 2013 was approximately $ 19.9 million and $13.1 million, respectively.

Amortization expense relating to intangible assets for the six-month periods ended June 30, 2014 and 2013 was approximately $ 38.9 million and $26.2 million, respectively.

As of June 30, 2014, estimated amortization expense relating to intangible assets currently subject to amortization for each of the next five years and thereafter was as follows (in thousands):

Remaining 6 months of 2014	$	39,566
2015		79,130
2016		78,335
2017		76,713
2018		70,800
Thereafter		205,507

Note 5. Earnings (Loss) Per Share

The Company complies with ASC 260, *Earnings Per Share* , which requires dual presentation of basic and diluted income (loss) per ordinary share attributable to Stratasys Ltd. for all periods presented. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares, outstanding for the reporting periods. Diluted net income per share is computed using the weighted-average number of common shares and the potential dilutive common shares outstanding during the period. Diluted shares outstanding include the dilutive effect of in-the-money options and restricted stock units (“RSUs”) using the treasury stock method, as well as, shares held back from issuance and other certain obligations in connection with the MakerBot transaction.

The following table presents a reconciliation of the numerator and denominator of the basic and diluted income (loss) per share computations for the three and six months ended June 30, 2014 and 2013:

(in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
Numerator:	2014	2013	2014	2013
Net income (loss) attributable to Stratasys Ltd.– for the computation of basic and diluted net income (loss) per share	$ (173)	$ (2,800)	3,914	$ (18,336)
Denominator:				
Weighted average shares – denominator for basic net income (loss) per share	49,373	38,781	49,323	38,637
Add: Effect of dilutive securities				
Additional shares from the assumed exercise of employee stock options and unvested RSUs	-	-	1,250	-
Held back issuable shares and other cetain obligations in connection with MakerBot transaction	-	-	665	-
Denominator for diluted income (loss) per share	49,373	38,781	51,238	38,637
Net income (loss) per share attributable to Stratasys Ltd.				
Basic	$ (0.00)	$ (0.07)	0.08	$ (0.47)
Diluted	$ (0.00)	$ (0.07)	0.08	$ (0.47)

The computation of diluted net income (loss) per share excluded stock options, RSUs and shares held back to cover indemnity obligations in connection with the MakerBot transaction to purchase 2.78 million and 2.99 million shares for the three months ended June 30, 2014 and 2013, respectively, and 0.2 million and 2.99 million shares for the six months ended June 30, 2014 and 2013, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net income (loss) per share.

Note 6. Income Taxes

The Company's effective tax rate was 96.9% compared to a negative effective tax rate of 13.3% for the three-month periods ended June 30, 2014 and 2013, respectively, and 164.8% and 2.2% in the six-month periods ended June 30, 2014 and 2013, respectively. The Company's effective tax rate has varied significantly due to the changes in the mix of income (loss) between the U.S. and Israel, as well as the impact of the tax benefit as a result of the realization of the deferred tax liability associated with the amortization of the intangible assets. The income of $6.9 million attributable to the change in fair value of the Company's earn-out obligations in the six-month period ended June 30, 2014, is non-taxable, and therefore had a significant impact on the effective tax rate in this period.

Note 7. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. The fair value hierarchy categorizes into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables summarize the Company’s financial assets and liabilities that are carried at fair value on a recurring basis, by fair value hierarchy, in the condensed consolidated balance sheets (in thousands):

	June 30, 2014		
	Level 2	Level 3	Total
Assets:			
Foreign exchange forward contracts not designated as hedging instruments	$ 310	$ -	$ 310
Foreign exchange forward contracts designated as hedging instruments	197	-	197
Liabilities:			
Foreign exchange forward contracts not designated as hedging instruments	(430)	-	(430)
Earn-out obligation	-	(11,458)	(11,458)
	$ 77	$ (11,458)	$ (11,381)

	December 31, 2013		
	Level 2	Level 3	Total
Assets:			
Long term investment	$ 1,634	$ -	$ 1,634
Foreign exchange forward contracts not designated as hedging instruments	301	-	301
Foreign exchange forward contracts designated as hedging instruments	153	-	153
Liabilities:			
Foreign exchange forward contracts not designated as hedging instruments	(1,543)	-	(1,543)
Earn-out obligations	-	(29,025)	(29,025)
	$ 545	$ (29,025)	$ (28,480)

The following table is a reconciliation of the change for those financial assets and liabilities where fair value measurements are estimated utilizing Level 3 inputs, which consist of earn-out obligations related to acquisitions (in thousands):

	Earn-out obligations
Fair value as of December 31, 2013	$ 29,025
Payments	(10,795)
Additions	95
Gains recognized in earnings	(6,867)
Fair value as of June 30, 2014	$ 11,458

The earn-out obligations are described in note 2 and are classified within level 3 because fair value is measured based on the probability-weighted present value of the consideration expected to be transferred.

The following table summarizes the condensed consolidated balance sheets classification and fair values of the Company's derivative instruments (in thousands):

		Fair Value		Notional Amount	
	Balance sheet location	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	$ 310	$ 301	$ 10,512	$ 12,490
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	197	153	15,288	5,760
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(430)	(1,543)	72,000	54,000
		$ 77	$ (1,089)	$ 97,800	$ 72,250

Foreign exchange forward contracts are valued primarily based on observable inputs, including interest rate curves and both forward and spot prices for currencies (Level 2 inputs).

As of June 30, 2014, the Company had foreign exchange forward contracts, not designated as hedging instruments in effect for the conversion of $72.0 million into €52.9 million and $10.5 millioninto NIS 36.8 million. These derivatives are primarily used to reduce the impact of foreign currency fluctuations on certain balance sheet exposures. With respect to such derivatives, gains of $1.2 million and $0.2 million were recognized under other income (expense) for the three-month periods ended June 30, 2014 and 2013, respectively, and gains of $0.2 million and $2.0 million were recognized under other income (expense) for the six-month periods ended June 30, 2014 and 2013, respectively. Such gains offset the revaluation of the balance sheet items, which also recorded under other income (expense).

As of June 30, 2014, the Company had foreign exchange forward contracts in effect for the conversion of $15.3 million designated as a cash flow hedge for accounting purposes. The Company uses short-term cash flow hedge contracts to reduce its exposure to variability in expected future cash flows resulting mainly from payroll costs denominated in New Israeli Shekels. The changes in fair value of those contracts of $173 thousands and $44 thousands, for the three-month and the six-month periods ended June 30, 2014, respectively are included in the Company's accumulated other comprehensive income as of June 30, 2014. There were no material realized gains or losses with respect to those contracts during the three-month and six-month periods ended June 30, 2014. These contracts mature through December 31, 2014.

Long term investment consists of an investment in debt securities classified as available-for-sale and are recorded at fair value. The fair value is based on the sale of similar securities in the market, as well as last sales of these securities in the market (Level 2 inputs). The debt securities were sold during the first quarter of 2014.

Other financial instruments consist mainly of cash and cash equivalents, short-term bank deposits, current and non-current receivables, accounts payable and accruals. The fair value of these financial instruments approximates their carrying values.

Note 8. Stock-Based Compensation Plan

Stock-based compensation expense for stock options and restricted stock units (“RSUs”) was allocated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of sales	$ 1,034	$ 632	$ 1,946	$ 1,266
Research and development, net	885	846	$ 1,823	1,746
Selling, general and administrative	5,159	3,881	$ 10,045	7,839
Total stock-based compensation expenses	$ 7,078	$ 5,359	$ 13,814	$ 10,851

A summary of stock option activity for the six months ended June 30, 2014 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2014	2,007,433	$ 29.66
Granted	48,534	93.74
Exercised	(224,258)	10.49
Forfeited	(23,444)	48.16
Options outstanding as of June 30, 2014	1,808,265	$ 33.52
Exercisable options as of June 30, 2014	1,015,343	$ 17.12

The outstanding options generally have a term of ten years from the grant date. Options granted become exercisable over the vesting period, which is normally a four-year period beginning on the grant date, subject to the employee’s continuing service to the Company.

The fair value of stock options is determined using the Black-Scholes model. The weighted-average grant date fair value of options that were granted during the six-month period ended June 30, 2014 was $43.35.

During the six-month periods ended June 30, 2014 and 2013, the Company issued 224,258 and 647,667 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of $2.4 million and $6.0 million for the six-month periods ended June 30, 2014 and 2013, respectively.

As of June 30, 2014, the unrecognized compensation cost related to all unvested stock options of $32.8 million is expected to be recognized as an expense over a weighted-average period of 1.5 years.

During the six months ended June 30, 2014, the Company granted 108,080 RSUs. The fair value of RSUs is determined based on the quoted price of the Company’s common stock on the date of the grant.

As of June 30, 2014, the unrecognized compensation cost related to all unvested RSUs of $25.7 million is expected to be recognized as expense on a straight-line basis over a weighted-average period of 3.4 years.

Note 9. Contingencies

Claims and Proceedings

In December 2008, an employee, whose employment with the Company was subsequently terminated, filed a claim against the Company demanding that, based on an alleged undertaking the Company had made, the Company issue to him an option that would allow him to maintain an equity interest of 1.45% in the Company, as well as reimburse salary reductions he had suffered in an aggregate sum of NIS 552,000 ($161,000). In July 2009, the Company filed its statement of defense, rejecting the claims raised by the former employee. Together with the former employee, the Company initiated mediation of the dispute, but did not reach a settlement. The former employee later amended his initial pleading to seek an additional NIS 441,000 ($128,000) on account of alleged wrongful termination by the Company. The claim was dismissed in November 2013 by the Israeli labor court, also awarding the Company legal expenses of NIS 55,000. The plaintiff has appealed the decisions and the appeal is currently ongoing at the national Israeli labor court.

On March 4, 2013, four current or former minority shareholders (two of whom were former directors) of the Company filed two lawsuits against the Company in an Israeli district court. The lawsuits demand that the Company amend its capitalization table such that certain share issuances prior to the Stratasys-Objet merger to certain of Objet's shareholders named as defendants would be cancelled, with a consequent issuance of additional shares to the plaintiffs to account for the subsequent dilution to which they have been subject. The lawsuits also name as defendants Elchanan Jaglom, Chairman of the Executive Committee of the Company's board of directors, David Reis, Chief Executive Officer, various shareholders of the Company who were also shareholders of Objet, and, in one of the lawsuits, Ilan Levin, a director. The lawsuits allege in particular that a series of investments in Objet during 2002 and - 2007 was effected at a price per share that was below fair market value, thereby illegally diluting those shareholders that did not participate in the investments. The plaintiffs also allege that a portion of the amount invested in those transactions was actually invested by an investor who was already a shareholder of Objet and allegedly acting in concert with Mr. Jaglom, and that the interest of these two shareholders in these transactions was not properly disclosed to the minority shareholders at the time. The lawsuits furthermore claim that the Company effectively engaged in backdating the issuance of certain shares, in that shares that Objet reported as having been issued in 2006 and 2007 were actually issued at a subsequent date—as late as 2009. The Company filed its statements of defense in May 2013 denying the plaintiffs' claims. Also, the Company filed motion to dismiss the claims on grounds of statute of limitations, laches and lack of cause. On April 8, 2014, the court held a hearing on the motion and a decision will be issued after the parties will submit summation briefs.

The Company believes that these claims are all entirely baseless and that the transactions in question were conducted in accordance with applicable law. Management does not believe that these lawsuits will have a material adverse effect on the Company's operations or financial condition, and the Company intends to vigorously defend these lawsuits.

The Company is a party to various other legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Exhibit 99.2

OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included as Exhibit 99.1 to the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review and Prospects is attached, or the Form 6-K. The discussion below contains forward-looking statements (within the meaning of the United States federal securities laws) that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Forward-looking Statements and Factors that May Affect Future Results of Operations", below, as well in the "Risk Factors" in Item 3.D of our Annual Report on Form 20-F for the year ended December 31, 2013 and in the "Risk Factors" appended as Exhibit 99.3 to the Form 6-K.

Overview of Business and Trend Information

We are a leading global provider of additive manufacturing, ("AM"), solutions for the creation of parts used in the processes of designing and manufacturing products and for the direct manufacture of end parts. Our solutions are sold under eight brands, with products ranging from entry-level desktop 3D printers to systems for rapid prototyping, ("RP"), and large production systems for direct digital manufacturing, ("DDM"), and related service offerings. We also develop, manufacture and sell materials for use with our systems. We believe that the range of more than 130 3D printing consumable materials that we offer is the widest in the industry. Our service offerings include professional services as well as paid parts. We conduct our business globally, and our main operational facilities are located in the United States, Israel, Germany, Hong Kong, Japan and Brazil. We have more than 2,500 employees and hold more than 550 granted or pending additive manufacturing patents globally.

On July 14, 2014, we completed the acquisition of 100% of Solid Concepts Inc. ("Solid Concepts"), an independent additive manufacturing service bureau for a total consideration of $190 million (subject to adjustment, as described below), of which $29 million was paid in cash, $103 million was paid in our shares, $4 million was deferred for six months and will be paid in cash and the remaining $54 million will be paid in three separate annual installments.

Under the terms of the definitive agreement, certain of Solid Concepts' employees may also qualify for retention-related and other payments of $72 million, of which $15 million was paid upon closing, and the remaining will be paid in three installments over three years.

Subject to certain requirements for cash payments, we retain the discretion to settle any of the amounts payable under the definitive agreement in our shares, cash or any combination of the two. These amounts are also subject to certain adjustments based on our share price. Since the initial accounting treatment for the business combination is incomplete at this stage, certain amounts presented above are subject to adjustments.

This transaction, together with the Harvest transaction, which is described below, are expected to enable us to expand our existing digital manufacturing service business, to create a leading strategic platform to meet a broad range of customers' additive manufacturing needs and to provide opportunities to leverage manufacturing services capabilities.

On August 1 , 2014, we completed the acquisition 100% of the outstanding shares of Harvest Technologies Inc. ("Harvest"), a specialty additive manufacturing service bureau. Under the terms of the definitive agreement with Harvest, certain of Harvest's employees may also qualify for certain retention-related payments.

In April 2014, we acquired certain assets of Interfacial Solutions LLC ("Interfacial Solutions"), a privately held provider of thermoplastics research and development and production services. This transaction is designed to strengthen our materials research and development skills and enable us to become vertically integrated in material development and manufacturing and also increase our materials production space and capacity.

Interfacial Solutions results of operations were included in our condensed consolidated financial statements commencing April 2014.

We believe that the proliferation of 3D content, advancements in additive manufacturing technology platforms and the introduction of improved materials will continue to drive market growth. Accordingly, we will continue to invest in our R&D efforts, which focus on enhancing our 3D printing technologies and developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, thereby broadening user applications. We also intend to invest in the identification of new DDM applications for which our proprietary printing technologies and materials are appropriate and to encourage existing and potential customers to identify new applications in part by increasing awareness of the features of our technology and product offerings.

On August 15, 2013, we completed the acquisition of privately-held Cooperation Technology Corporation, which was the direct parent company of MakerBot Industries, LLC, or MakerBot, a leader in desktop 3D printing, and which owned and operated Thingiverse.com, a website dedicated to the sharing of user-created digital files. The aggregate purchase price was $493.7 million and the consideration that we paid consisted primarily of ordinary shares that we issued. For additional details regarding the financial terms of this transaction, see Item 18 of our Annual Report on Form 20-F for the year ended December 31, 2013.

During the second quarter, we continued to expand our 3D desktop solutions' sales channels in the United States with new collaborations. On August 1, 2014 we acquired certain assets of our Germany-based partner, HAFNER'S BÜRO, which has been our reseller in Germany. This acquisition will enable us to expand our desktop 3D printing operations throughout the European market. During the third quarter we started to sell our 3D desktop solutions in Japan through our subsidiary in Japan.

We believe that desktop 3D printers are becoming a mainstream tool across many market segments. Desktop 3D printer usage has shown rapid growth, with the introduction and adoption of affordable entry-level 3D printers and increased availability of content. These entry-level desktop printers are driving substantially increased market adoption. We expect that the adoption of 3D printing will continue to increase over the next several years, both in terms of RP and DDM applications. We believe that the expansion of the market will be spurred by increased proliferation of 3D content and 3D authoring tools (3D CAD and other simplified 3D authoring tools). We also believe that increased market adoption of 3D printing will be facilitated by continued improvements in 3D printing technology and greater affordability of entry-level systems.

With the introduction of entry-level systems, we have seen unit volume increase faster than revenues growth, and we expect that trend to continue in the near future. As we have developed appropriate sales channels, unit sales of our more affordable systems have accelerated, resulting in lower overall margins on the sale of our systems. We will also address the continuing increased demand in the market for higher-end systems, through which we believe we will increase our installed base and sales of related consumables, and consequently our overall revenues and profits. However, there can be no assurance that we will be able to increase our revenues sufficiently to maintain or increase our current profitability.

We may make other investments in strategic acquisitions, property, plants and equipment, process improvements, information technology, or IT, and human resource activities that will be required for future growth. Our expense levels are based in part on our expectations of future sales, and we will make adjustments that we consider appropriate. While we have adjusted, and will continue to adjust, our expense levels based on both actual and anticipated sales, fluctuations in sales in a particular period could adversely impact our operating results.

Summary of Financial Results

Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United State of America, ("GAAP"). In the opinion of our management, all adjustments considered necessary for a fair statement of the unaudited interim consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual and results, on a GAAP basis, for the three and six months ended June 30, 2014 with the corresponding periods in 2013.

Comparison of Three Months Ended June 30, 2014 to Three Months Ended June 30, 2013

Our net sales in the three months ended June 30, 2014 were $178.5 million as compared to net sales of $106.5 million in the three months ended June 30, 2013, representing an increase of 67.6%. The increase was mainly a result of strong business performance in our growing market and the inclusion of MakerBot net sales.

For the three months ended June 30, 2014, we recorded net loss attributable to Stratasys Ltd. of $0.2 million, or $0.00 per diluted share, as compared to net loss of $2.8 million or $0.07 per diluted share, for the three months ended June 30, 2013. The decrease in the net loss during the three months ended June 30, 2014 was mainly a result of higher revenues, higher gross margin, and a favorable effective tax rate, partially offset by higher operating expenses, as discussed below.

Results of Operations

The following table sets forth certain statement of operations data for the periods indicated:

	Three Months Ended June 30,			
	2014		2013	
	U.S. $ in thousands	% of Net sales	U.S. $ in thousands	% of Net sales
Net sales	$ 178,465	100.0%	$ 106,485	100.0%
Cost of sales	86,831	48.7%	56,080	52.7%
Gross profit	91,634	51.3%	50,405	47.3%
Research and development, net	18,957	10.6%	10,337	9.7%
Selling, general and administrative	77,929	43.7%	42,665	40.1%
Change in fair value of earn-out obligations	628	0.4%	-	0.0%
Operating loss	(5,880)	-3.3%	(2,597)	-2.4%
Other income	337	0.2%	138	0.1%
Loss before income taxes	(5,543)	-3.1%	(2,459)	-2.3%
Income taxes	(5,370)	-3.0%	326	0.3%
Net loss attributable to Stratasys Ltd.	(173)	-0.1%	(2,800)	-2.6%

Discussion of Results of Operations

Net Sales

Net sales of our products and services, as well as the percentage change, were as follows:

	Three Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Products	$ 154,090	$ 90,213	70.8%
Services	24,375	16,272	49.8%
	$ 178,465	$ 106,485	67.6%

Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) increased by $63.9 million for the three months ended June 30, 2014, or 70.8%, as compared to the three months ended June 30, 2013.

The number of systems shipped increased to14,909 units as compared to 1,261 units shipped in the three months ended June 30, 2013. The increase in both revenues and number of units shipped primarily reflects sales growth across all product lines as well as the inclusion of MakerBot revenues and unit sales which were not reflected in the three months ended June 30, 2013. This growth has been driven in part by the continued adoption of our Production series and high-end Design series systems for complex DDM and prototyping applications using a wide range of materials with diverse mechanical and physical properties.

Consumables revenues for the three months ended June 30, 2014 increased by 35.1% as compared to the three months ended June 30, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems. The strong Production series and high-end Design series system sales in prior periods contributed to strong consumables sales growth given their relatively higher consumable utilization rates. We believe that our growing installed base, and in particular the Production series and high-end Design series systems installed base, are positive indicators of consumables revenues growth in future periods.

Services Revenues

Services revenues (including RedEye paid parts, maintenance and other services) increased by $8.1 million for the three months ended June 30, 2014, or 49.8%, as compared to the three months ended June 30, 2013. The increase in services revenues was attributable to increased revenues from maintenance contracts and service parts, reflecting our growing base of installed systems.

Revenues by Region

Net sales and the percentage of net sales by region, as well as the percentage change, were as follows:

	Three Months Ended June 30,				
	2014		2013		% Change
	U.S. $ in thousands	% of Net sales	U.S. $ in thousands	% of Net sales	
North America	$ 95,168	53.3%	$ 55,407	52.0%	71.8%
EMEA	43,528	24.4%	28,985	27.2%	50.2%
Asia Pacific	36,905	20.7%	20,668	19.4%	78.6%
Other	2,864	1.6%	1,425	1.4%	101.0%
	$ 178,465	100.0%	$ 106,485	100.0%	67.6%

Revenues in all regions increased for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, due to strong demand for our products, as well as the inclusion of MakerBot revenues.

Gross Profit

Gross profit for our products and services, as well as the percentage change, were as follows:

	Three Months Ended June 30,		
	2014	2013	% Change
Gross profit attributable to:	U.S. $ in thousands		
Products	$ 80,696	$ 44,482	81.4%
Services	10,938	5,923	84.7%
	$ 91,634	$ 50,405	81.8%

Gross profit as a percentage of net sales for our products and services, as well as the percentage change, were as follows:

	Three Months Ended June 30,		
Gross profit as a percentage of revenues from:	2014	2013	% Change
Products	52.4%	49.3%	6.2%
Services	44.9%	36.4%	23.3%
Total gross profit	51.3%	47.3%	8.5%

Gross profit attributable to products sales increased by $36.2 million, or 81.4%, to $80.7 million for the three months ended June 30, 2014 as compared to $44.5 million for the three months ended June 30, 2013. Gross profit from services increased by $5.0 million, or 84.7%, to $10.9 million for the three months ended June 30, 2014 as compared to $5.9 million for the three months ended June 30, 2013.

The increase is primarily a result of an increase in revenues across all product lines and the inclusion of MakerBot results for the three months ended June 30, 2014. Gross profit as a percentage of revenue increased to 51.3% for the three months ended June 30, 2014 as compared to 47.3% for the three months ended June 30, 2013, mainly due to the product mix sales that favored our higher-margin Production series and high-end Design series systems and strong growth in our high-margin consumables sales.

Gross profit from services and gross profit as a percentage of services revenues in the three months ended June 30, 2014 increased as compared to the three months ended June 30, 2013. The increase primarily reflects strong growth in our customer service maintenance contracts and spare parts sales.

Operating Expenses

The amount of each type of operating expense, as well as the percentage change and total operating expenses as a percentage of our total net sales, were as follows:

	Three Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Research and development, net	$ 18,957	$ 10,337	83.4%
Selling, general & administrative	77,929	42,665	82.7%
Change in fair value of earn-out obligations	628	-	N/A
	$ 97,514	$ 53,002	84.0%
Percentage of net sales	54.6%	49.8%	

Research and development expenses, net for the three months ended June 30, 2014 increased by $8.6 million, or 83.4% as compared to the three months ended June 30, 2013. The increase was primarily due to the inclusion of MakerBot and an increase in headcount to support new research and development initiatives. The headcount increase reflects our intention to continue to invest in research and development efforts, focusing on enhancing our AM technologies and developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, aimed at broadening user applications.

The increase in net research and development expenses was partially offset by an increase in research and development expense reimbursements received in connection with our collaborative agreements. During the three months ended June 30, 2014 and 2013, approximately $1.4 million and $1.0 million, respectively, of research and development expenses were offset by payments we received from two manufacturing companies under which we jointly advance certain of our proprietary technology.

Research and development expense, net for three months ended June 30, 2014 as a percentage of sales was 10.6%, a slight increase compared to the three months ended June 30, 2013.

Selling, general and administrative expenses for the three months ended June 30, 2014 amounted to $77.9 million, compared to $42.7 million for the three months ended June 30, 2013. Selling, general and administrative expenses for the three months ended June 30, 2014 as percentage of net sales were 43.7%, compared to 40.1% for the three months ended June 30, 2013.

The increase primarily reflects the inclusion of MakerBot's selling, general and administrative expenses as well as higher expenses for strategic and marketing initiatives, an increase in amortization of acquired intangible assets of $3.1 million and a headcount increase to support our growth. In addition, we recorded an expense of $2.6 million for the MakerBot performance bonus plan under selling, general and administrative expenses.

During the three months ended June 30, 2014 we recorded an expense of $0.6 million due to the revaluation of earn out obligations in connection with the MakerBot transaction.

Operating Loss

Operating loss and operating loss as a percentage of our total net sales, as well as the percentage change in operating loss, were as follows:

	Three Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Operating loss	$ (5,880)	$ (2,597)	126.4%
Percentage of net sales	-3.3%	-2.4%	

Operating loss for the three months ended June 30, 2014 amounted to $5.9 million compared to an operating loss of $2.6 million for the three months ended June 30, 2013. The increase in operating loss was primarily due to higher selling, general and administrative expenses (due to factors that were discussed above), higher amortization expense and additional expenses that were recorded due to MakerBot performance bonus plan and the revaluation of earn out obligations in connection with the MakerBot transaction. The increase in operating loss was partially offset by higher gross profit as described above.

Income Taxes

Income taxes and income taxes as a percentage of net loss before taxes, as well as the percentage change, were as follows:

	Three Months Ended June 30,	
	2014	2013
	U.S. $ in thousands	
Income taxes	$ (5,370)	$ 326
As a percent of loss before income taxes	96.9%	-13.3%

Our effective tax rate for the three months ended June 30, 2014 was 96.9% compared to a negative effective tax rate of 13.3% for the three months ended June 30, 2013. Our effective tax rate has varied significantly due to the changes in the mix of income (loss) between the U.S. and Israel, as well as the impact of the tax benefit as a result of the realization of the deferred tax liability associated with the amortization of the intangible assets.

Net Loss and Net Loss Per Share Attributable to Stratasys Ltd .

Net loss and net loss as a percentage of our total net sales, as well as the percentage change, were as follows:

	Three Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Net loss attributable to Stratasys Ltd.	$ (173)	$ (2,800)	-93.8%
Percentage of net sales	-0.1%	-2.6%	
Diluted loss per share	$ (0.00)	$ (0.07)	

This decrease of net loss attributable to Stratasys Ltd was due to the factors previously discussed, primarily the increase in our gross profit and a favorable effective tax rate offset by an increase in our operating expense in the three months ended June 30, 2014, as compared to the three months ended June 30, 2013.

The weighted average fully diluted share count for the three months ended June 30, 2014 was 49.4 million, compared to 38.8 million for the three months ended June 30, 2013. The increase is primarily due to the public offering of shares and the issuance of shares in connection with the MakerBot transaction during the third quarter of 2013.

Diluted loss per share was $0.00 for the three months ended June 30, 2014, compared to a diluted loss per share of $0.07 for the three months ended June 30, 2013. In computing the loss per share for the three months ended June 30, 2014 and 2013, no adjustments were made to take into account any possible dilution to the basic loss per share due to our net loss.

Comparison of Six Months Ended June 30, 2014 to Six Months Ended June 30, 2013

General

In general, the factors mentioned above that explain quarterly changes on a year-over-year basis are also relevant to a comparison of the results for the six months ended June 30, 2014 and 2013. Additional factors affecting the six months comparison are described below.

The following table presents certain financial data as a percentage of net sales for the periods indicated:

	Six Months Ended June 30,			
	2014		2013	
	U.S. $ in thousands	% of Net sales	U.S. $ in thousands	% of Net sales
Net sales	$ 329,406	100.0%	$ 203,692	100.0%
Cost of sales	160,044	48.6%	115,913	56.9%
Gross profit	169,362	51.4%	87,779	43.1%
Research and development, net	35,728	10.8%	21,126	10.4%
Selling, general and administrative	145,546	44.2%	85,990	42.2%
Change in fair value of earn-out obligations	(6,867)	-2.1%	-	0.0%
Operating loss	(5,045)	-1.5%	(19,337)	-9.5%
Other income (expense)	(999)	-0.3%	652	0.3%
Loss before income taxes	(6,044)	-1.8%	(18,685)	-9.2%
Income taxes	(9,958)	-3.0%	(417)	-0.2%
Net income (loss) attributable to Stratasys Ltd.	3,914	1.2%	(18,336)	-9.0%

Discussion of Results of Operations

Net Sales

Net sales of our products and services, as well as the percentage change, were as follows:

	Six Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Products	$ 283,342	$ 172,023	64.7%
Services	46,064	31,669	45.5%
	$ 329,406	$ 203,692	61.7%

Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) increased by $111.3 million for the six months ended June 30, 2014, or 64.7%, as compared to the six months ended June 30, 2013.

The number of systems shipped increased to 23,711 units as compared to 2,429 units shipped in the six months ended June 30, 2013. The increase in both revenues and number of units shipped primarily reflects sales growth across all product lines as well as the inclusion of MakerBot revenues and unit sales that were not reflected in the six months ended June 30, 2013.

Consumables revenues for the six months ended June 30, 2014 increased by 35.7% as compared the six months ended June 30, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems.

Services Revenues

Services revenues (including RedEye paid parts, maintenance and other services) increased by $14.4 million for the six months ended June 30, 2014, or 45.5%, as compared to the six months ended June 30, 2013. The increase in services revenues was attributable to increased revenues from maintenance contracts and service parts, reflecting our growing base of installed systems.

Revenues by Region

Net sales and the percentage of net sales by region, as well as the percentage change, were as follows:

	Six Months Ended June 30,				
	2014		2013		% Change
	U.S. $ in thousands	% of Net sales	U.S. $ in thousands	% of Net sales	
North America	$ 169,832	51.6%	$ 104,257	51.2%	62.9%
EMEA	84,743	25.7%	56,358	27.7%	50.4%
Asia Pacific	70,325	21.3%	40,387	19.8%	74.1%
Other	4,506	1.4%	2,690	1.3%	67.5%
	$ 329,406	100.0%	$ 203,692	100.0%	61.7%

Revenues in all regions increased for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, due to strong demand for our products, as well as the inclusion of MakerBot revenues.

Gross Profit

Gross profit for our products and services, as well as the percentage change, were as follows:

	Six Months Ended June 30,		
	2014	2013	% Change
Gross profit attributable to:	U.S. $ in thousands		
Products	$ 148,926	$ 77,249	92.8%
Services	20,436	10,530	94.1%
	$ 169,362	$ 87,779	92.9%

Gross profit as a percentage of net sales for our products and services, as well as the percentage change, were as follows:

	Six Months Ended June 30,		
Gross profit as a percentage of revenues from:	2014	2013	% Change
Products	52.6%	44.9%	17.0%
Services	44.4%	33.3%	33.0%
Total gross profit	51.4%	43.1%	19.3%

Gross profit attributable to products sales increased by $71.7 million, or 92.8%, to $148.9 million for the six months ended June 30, 2014 as compared to $77.2 million for the six months ended June 30, 2013. Gross profit from services increased by $9.9 million, or 94.1%, to $20.4 million for the six months ended June 30, 2014 as compared with $10.5 million for the six months ended June 30, 2013.

Operating Expenses

The amount of each type of operating expense, as well as the percentage change and total operating expenses as a percentage of our total net sales, were as follows:

	Six Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Research and development, net	$ 35,728	$ 21,126	69.1%
Selling, general & administrative	145,546	85,990	69.3%
Change in fair value of earn-out obligations	(6,867)	-	N/A
	$ 174,407	$ 107,116	62.8%
Percentage of net sales	52.9%	52.6%	

Research and development expenses, net for the six months ended June 30, 2014 increased by $14.6 million, or 69.1%, as compared to the six months ended June 30, 2013.

Research and development expense, net for the six months ended June 30, 2014 as a percentage of sales was 10.8%, a slight increase compared to the six months ended June 30, 2013.

Selling, general and administrative expenses for the six months ended June 30, 2014 amounted to $145.5 million, compared to $86.0 million for the six months ended June 30, 2013.

Selling, general and administrative expenses for the six months ended June 30, 2014 as percentage of net sales was approximately 44.2%, compared to 42.2% for the six months ended June 30, 2013.

The increase in selling, general and administrative expenses primarily reflects the inclusion of MakerBot's selling, general and administrative expenses as well as changes in the distribution strategy involving independent sales agents with respect to a few of our products, which resulted in increased sales commissions, expenses for strategic and marketing initiatives and a headcount increase to support our growth.

During the six months ended June 30, 2014 we recorded a gain of $6.9 million due to the revaluation of earn out obligations in connection with the MakerBot transaction.

Operating Loss

Operating loss and operating loss as a percentage of our total net sales, as well as the percentage change in operating loss, were as follows:

	Six Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Operating loss	$ (5,045)	$ (19,337)	-73.9%
Percentage of net sales	-1.5%	-9.5%	

Operating loss for the six months ended June 30, 2014 amounted to $5.0 million compared to an operating loss of $19.3 million for the six months ended June 30, 2013. The decrease in operating loss was due to factors that were previously discussed.

Income Taxes

Income taxes and income taxes as a percentage of net loss before taxes, as well as the percentage change, were as follows:

	Six Months Ended June 30,	
	2014	2013
	U.S. $ in thousands	
Income taxes	$ (9,958)	$ (417)
As a percent of income (loss) before income taxes	164.8%	2.2%

Our effective tax rate for the six months ended June 30, 2014 was 164.8% compared to effective tax rate of 2.2% for the six months ended June 30, 2013. Our effective tax rate has varied significantly since the December 1, 2012 Stratasys-Objet merger due to the changes in mix of income (loss) between the U.S. and Israel, and the impact of the tax benefit as a result of the realization of the deferred tax liability associated with the amortization of the intangible assets. The income of $6.9 million attributable to the change in fair value of our earn-out obligations in the six months ended June 30, 2014 is non-taxable, and therefore had a significant impact on the effective tax rate.

Net Income (Loss) and Net Income (Loss) Per Share Attributable to Stratasys Ltd .

Net income (loss) and net income (loss) as a percentage of our total net sales, as well as the percentage change, were as follows:

	Six Months Ended June 30,		
	2014	2013	% Change
	U.S. $ in thousands		
Net income (loss) attributable to Stratasys Ltd.	$ 3,914	$ (18,336)	-121.3%
Percentage of net sales	1.2%	-9.0%	
Diluted net income (loss) per share	$ 0.08	$ (0.47)	

This increase in net income attributable to Stratasys Ltd was due to the factors previously discussed, primarily the increase in gross profit and the change in our effective tax rate offset by an increase in our operating expenses for the six months ended June 30, 2014, as compared to the six months ended June 30, 2013.

The weighted average fully diluted share count for the six months ended June 30, 2014 was 51.2 million, compared to 38.6 million for the six months ended June 30, 2013.

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which exclude the categories of expenses described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures are useful information for investors and shareholders of our company in gauging our results of operations (x) on an ongoing basis after excluding merger and acquisition related expense, and (y) excluding non-cash charges for share-based compensation and amortization of intangible assets, which do not reflect actual cash outlays that impact our liquidity or our financial condition, as assessed by management. These non-GAAP financial measures are presented to permit investors to more fully understand how management assesses our performance. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all events during a period, such as the effects of merger-related, non-cash compensation and other charges, and may not provide a comparable view of our performance to other companies in our industry. The presentation of these non-GAAP measures is not meant to be considered in isolation or as an alternative to any measure of financial performance calculated in accordance with GAAP.

Reconciliation of GAAP to Non-GAAP Results of Operations

The following tables present the GAAP measures, the corresponding non-GAAP amounts and related non-GAAP adjustments for the applicable periods:

	Three Months Ended June 30,					
	2014 GAAP	Non-GAAP Adjustments	2014 Non-GAAP	2013 GAAP	Non-GAAP Adjustments	2013 Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	$ 91,634	$ 15,079	$ 106,713	$ 50,405	$ 12,713	$ 63,118
Operating income (loss) (1,2)	(5,880)	34,642	28,762	(2,597)	24,307	21,710
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(173)	28,167	27,994	(2,800)	21,366	18,566
Diluted net income (loss) per share attributable to Stratasys Ltd. (4)	(0.00)	0.55	0.55	(0.07)	0.52	0.45
(1) Acquired intangible assets amortization expense		14,029			11,780	
Deferred revenue purchase price adjustments		-			199	
Non-cash stock-based compensation expense		1,034			632	
Merger and acquisition related expense		16			102	
		15,079			12,713	
(2) Acquired intangible assets amortization expense		5,507			2,425	
Non-cash stock-based compensation expense		6,044			4,727	
Change in Earn-out obligation fair value and performance bonus expense		3,574			-	
Merger and acquisition related expense		4,438			4,442	
		19,563			11,594	
		34,642			24,307	
(3) Tax expense related to adjustments		(6,475)			(2,916)	
Depreciation and amortization expense attributable to non-controlling interest		-			(25)	
		$ 28,167			$ 21,366	
(4) Weighted average number of ordinary shares outstanding- Diluted	49,373		51,196	38,781		41,146

	Six Months Ended June 30,					
	GAAP 2014	Non-GAAP Adjustments	2014 Non-GAAP	GAAP 2013	Non-GAAP Adjustments	2013 Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	$ 169,362	$ 29,477	$ 198,839	$ 87,779	$ 33,247	$ 121,026
Operating income (loss) (1,2)	(5,045)	56,563	51,518	(19,337)	61,348	42,011
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	3,914	44,679	48,593	(18,336)	54,481	36,145
Diluted net income (loss) per share attributable to Stratasys Ltd. (4)	0.08	0.87	0.95	(0.47)	1.35	0.88
(1) Acquired intangible assets amortization expense		27,254			30,542	
Deferred revenue purchase price adjustments		235			1,214	
Non-cash stock-based compensation expense		1,946			1,266	
Merger and acquisition related expense		42			225	
		29,477			33,247	
(2) Acquired intangible assets amortization expense		10,871			7,886	
Non-cash stock-based compensation expense		11,868			9,584	
Change in Earn-out obligation fair value and performance bonus expense		(1,575)			-	
Merger and acquisition related expense		5,922			10,631	
		27,086			28,101	
		56,563			61,348	
(3) Tax expense related to adjustments		(11,884)			(6,802)	
Depreciation and amortization expense attributable to non-controlling interest		-			(65)	
		$ 44,679			$ 54,481	
(4) Weighted average number of ordinary shares outstanding- Diluted	51,238		51,221	38,637		41,111

Liquidity and Capital Resources

A summary of our statement of cash flows is as follows:

	Six Months Ended June 30,	
	2014	2013
	U.S. $ in thousands	
Net income (loss)	$ 3,914	$ (18,268)
Depreciation and amortization	48,579	46,975
Deferred income taxes	(13,440)	(9,393)
Stock-based compensation	13,814	10,851
Excess tax benefit from stock options	(582)	(986)
Change in earn-out obligation	(6,867)	-
Other non-cash items	419	(122)
Change in working capital and other	(36,219)	(31,257)
Net cash provided by (used in) operating and other activities	9,618	(2,200)
Net cash provided by investing activities	88,603	9,581
Net cash (used in) provided by financing activities	(9,996)	6,974
Effect of exchange rate changes on cash and cash equivalents	1	(120)
Net change in cash and cash equivalents	88,226	14,235
Cash and cash equivalents, beginning of period	414,088	133,826
Cash and cash equivalents, end of period	$ 502,314	$ 148,061

Our cash and cash equivalents balance increased to $502.3 million at June 30, 2014 from $414.1 million at December 31, 2013. Cash and cash equivalents increased by $88.2 million in the six-month period ended June 30, 2014 compared to $14.2 million in the six-month period ended June 30, 2013. The increase in cash and cash equivalent in the six months ended June 30, 2014 was primarily due to cash provided by investing activities in an amount of $88.6 million which primarily reflected the maturity of short-term deposits partially offset by cash used for purchases of property, plant and equipment and cash paid for acquisitions. During the six months ended June 30, 2014, cash flows from operating activities amounted to $9.6 million, which was offset by cash flows used in financing activity.

Cash flows from operating activities

We generated cash from operating activities of $9.6 million during the six months ended June 30, 2014. Net income of $3.9 million was favorably adjusted due to non-cash charges for depreciation and amortization and stock-based compensation expense offset by the change in the fair value of earn-out obligations. Non-cash charges that unfavorably affected cash from operating activities were mainly the changes in the deferred income taxes of $13.4 million and the changes in working capital and other of $36.2 million. The increase in the working capital consisted mainly of an increase in inventories of $29.7 million and accounts receivable of $13.1 million, offset by an increase in accounts payable and other current liabilities of $11.4 million. The change in working capital is mainly due to strong order flow.

During the six months ended June 30, 2013 we used $2.2 million of cash in operating activities. The net loss of $18.3 million was favorably adjusted due to non-cash charges for depreciation and amortization and stock-based compensation expense. Non-cash charges that unfavorably affected cash from operating activities were the deferred tax benefit and excess tax benefit from stock option exercises. Changes in working capital using cash from operations included a $19.1 million increase in accounts receivable due to strong order flow and an increase in inventory of $9.7 million in anticipation of strong order flow expected as a result of the Stratasys-Objet merger.

Cash flows from investing activities

Our investing activities generated cash of $88.6 million and $9.6 million in the six months ended June 30, 2014 and 2013, respectively.

In the six months ended June 30, 2014, $124.7 million was provided by the net change in short-term bank deposits due to the maturity of those deposits.

Property, plant and equipment purchases totaled $23.5 million in the six months ended June 30, 2014. Our principal property, plant and equipment purchases were for the enhancement of our manufacturing facilities in Israel and the United States and our facility in Germany, as well as, the purchase of engineering development equipment, tooling, building and leasehold improvements and the acquisition of computer systems and software applications.

Cash outflows relating to acquisitions and other intangibles assets of $14.2 million in the six months ended June 30, 2014, primarily included the acquisition of Interfacial Solutions. See also note 2, *Acquisitions* , in the notes to our unaudited consolidated financial statements attached as Exhibit 99.1 to this Report of Foreign Private Issuer on Form 6-K.

Cash used in our investing activities in the six months ended June 30, 2013 included property, plant and equipment purchases, net of sales, of $9.9 million. In the six months ended June 30, 2013, $20.1 million was provided by the maturing of short-term bank deposits.

Cash flows from financing activities

Net cash used in financing activities in the six months ended June 30, 2014 was $10.0 million. During the second quarter of 2014, we paid in cash the first earn-out period obligation in connection with MakerBot transaction in the amount of $10.8 million. Cash used in financing activities, was partially offset by proceeds of $3.0 million from the exercise of stock options and the related excess tax benefit.

During the six months ended June 30, 2013 proceeds from the exercise of stock options and the related excess tax benefit provided cash of $7.0 million.

Capital resources and capital expenditures

Our total current assets amounted to $868.3 million at June 30, 2014, most of which consisted of cash and cash equivalents and short-term bank deposits, which amounted to $577.9 million. Total current liabilities amounted to $152.6 million. Our cash and cash equivalents and short-term bank deposits are primarily held in banks in Israel, Switzerland and the U.S., with only minor amounts subject to any restrictions on movement of balances within our company and our subsidiaries. We estimate that we will spend between approximately $50.0 million and $70.0 million in 2014 for property, plant and equipment.

Revolving credit facility

Pursuant to a credit agreement, dated November 7, 2013, with Bank of America, N.A., or BofA, as administrative agent and swing line lender, and the other lenders party thereto, our Company (via Stratasys International Ltd., our wholly-owned subsidiary, which serves as borrower) has in place a five year revolving credit facility in an aggregate principal amount of up to $250 million. The revolving credit facility permits swing line loans of up to the lesser of: (1) $25 million and (2) the aggregate commitments of all of the lenders. All of the obligations under the credit agreement are unconditionally guaranteed by our company and by our (and the borrower’s) active U.S. and Israeli subsidiaries (excluding, through the end of 2014, MakerBot and its subsidiaries).

The credit agreement contains customary representations and warranties, and affirmative and negative covenants. The negative covenants include, without limitation, restrictions on indebtedness, liens, investments, and certain dispositions. The negative covenants are each subject to a number of specific exceptions, as well as broader exceptions which are a function of our consolidated financial status. These broader exceptions include, among other things, the ability of our company, the borrower, or any of their subsidiaries to make investments, consummate acquisitions (as such terms are defined in the credit agreement), and incur additional unsecured indebtedness in the form of convertible unsecured bonds or similar convertible securities, as long as certain conditions are met. We believe that we were in compliance with all covenants under the credit agreement as of June 30, 2014.

As of June 30, 2014, we had not drawn upon the revolving credit facility.

For a more complete description of the credit facility, please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Revolving Credit Facility” in our Annual Report on Form 20-F for the year ended December 31, 2013.

We believe that we will have adequate cash and cash generated from operating activities to fund our ongoing operations for the next 12 months. We may make investments in fixed assets, process improvements, information technology, or IT, and human resource development activities that will be required for future growth.

Acquisitions

The initial MakerBot merger consideration was in the form of issuance of our ordinary shares. MakerBot shareholders could also qualify for two earn-out payments. The first payment was for the six-month period ended December 31, 2013, which amounted to $10.8 million and which was paid in cash during April 2014. The second payment is for the year ending December 31, 2014, for which MakerBot shareholders can qualify for up to 0.8 million shares depending on the level of achievement of financial metrics for that year. The value of any shares earned will be equal to the price of Stratasys ordinary shares on the date the amount of shares is determined. For example, had the maximum of 0.8 million shares been earned for the second earn-out period and based on the Company share price as of June 30, 2014, the total value would be $90.9 million. The earn-out payments can be made by issuance of our shares or in cash, or a combination thereof, at our discretion. Certain MakerBot employees participate in a performance bonus plan in connection with the MakerBot transaction. Participating employees are entitled, contingent on certain continuing employment conditions, to bonus payments that in the aggregate will equal dollar-for-dollar, the actual amounts determined in the earn-out calculation. Any bonus earned in the second earn-out period will be paid upon vesting, with the issuance of our shares or in cash, or a combination thereof, at our discretion.

As discussed in note 2, *Acquisitions* , in the notes to our unaudited consolidated financial statements attached as Exhibit 99.1 to this Report of Foreign Private Issuer on Form 6-K, we acquired Solid Concepts on July 14, 2014. At the closing, we paid $147 million as part of the purchase price and other related expenses, of which $44 million was paid in cash and $103 million was paid in our shares; the $4 million balance of the initial purchase price was deferred for six months and will be paid in cash. The remaining related payments, including deferred payment consideration and retention bonus in the amount of approximately $111 million, with the exception of certain requirements for cash payments, can be settled in shares, cash or any combination of the two, at our own discretion. These amounts are also subject to certain adjustments based on our share price.

We believe that our existing cash reserves and our revolving credit facility will be adequate to permit us to make the cash payments if we choose to pay the remaining amount in cash.

As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves, revolving credit facility and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue shares or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings and significant cash outflows for mergers and related expenses (whether or not our efforts are successful) that may include transaction costs, closing costs or costs of restructuring activities.

Critical Accounting Policies

We have prepared our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America. This has required us to make estimates, judgments, and assumptions that affected the amounts we reported. Actual results may differ from those estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in our Annual Report on Form 20-F for the year ended December 31, 2013. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances.

Forward-looking Statements and Factors That May Affect Future Results of Operations

Certain information included in or incorporated by reference into the Form 6-K may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "may," "will," "could," "should," "expect," "anticipate," "intend," "estimate," "believe," "project," "plan," "assume" or other similar expressions, or negatives of those expressions, although not all forward-looking statements contain these identifying words.

These forward-looking statements may include, but are not limited to, statements regarding our future strategy, future operations, projected financial position, proposed products, estimated future revenues, projected costs, future prospects, the future of our industry and results that might be obtained by pursuing management's current plans and objectives.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to certain risks, uncertainties and assumptions that are difficult to predict. Our forward-looking statements are based on the information currently available to us and speak only as of the date of this Form 6-K. Over time, our actual results, performance or achievements may differ from those expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our shareholders. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

- our ability to continue efficiently and successfully integrate the operations of Stratasys, Inc. and Objet Ltd. after their merger as well as Makerbot, Solid Concepts and Harvest Technologies after their acquisition and to success fully establish and execute effective post-acquisition integration plans;
- the overall global economic environment;
- the impact of competition and new technologies;
- general market, political and economic conditions in the countries in which we operate;
- projected capital expenditures and liquidity;
- changes in our strategy;
- government regulations and approvals;
- changes in customers' budgeting priorities;
- reduction in our profitability due to shifting in our product mix too far into lower margin products or our shifting in our revenues mix significantly towards our AM services business;
- possible additional liability relating to parts manufactured by our digital manufacturing services;
- litigation and regulatory proceedings; and
- those factors referred to in Item 3.D "Key Information - Risk Factors", Item 4 "Information on the Company", and Item 5 "Operating and Financial Review and Prospects" in our Annual Report on Form 20-F for the year ended December 31, 2013, as well as in that annual report generally and in the "Risk Factors" appended as Exhibit 99.3 to the Form 6-K and in other reports that we have furnished to, or filed with, the SEC.

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K of which this Operating and Financial Review is a part, our Annual Report on Form 20-F for the year ended December 31, 2013, and in our other reports filed with or furnished to the SEC, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT RISK

Reference is made to "Quantitative and Qualitative Disclosures About Market Risk" (Item 11) in our Annual Report on Form 20-F for the year ended December 31, 2013.

LEGAL PROCEEDINGS

We are subject to various litigation and other legal proceedings. For a discussion of certain of these matters that we deem to be material to the Company, see Note 9-"Contingencies" in the notes to our unaudited consolidated financial statements attached as Exhibit 99.1 to the in this Report on Form 6-K.

Exhibit 99.3

RISK FACTORS

Investing in our ordinary shares involves risks. Before making an investment decision, you should carefully consider the risks described below, as well as the risks appearing under Item 3.D “Risk Factors” in our annual report on Form 20-F for the year ended December 31, 2013, or the 2013 Annual Report, which we filed with the U.S. Securities and Exchange Commission, or the Commission, on March 3, 2014, and in our updates, if any, to those risk factors in our Reports of Foreign Private Issuer on Form 6-K. You should consider these risks in light of your particular investment objectives and financial circumstances. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our ordinary shares could decline due to any of these risks, and you may lose all or part of your investment.

The risk factor included in the 2013 Annual Report under the caption “ ***Our operations, particularly in integrating the operations of our constituent companies, could suffer if we are unable to attract and retain key management or other key employees*** ” is restated in its entirety as follows:

Our operations, particularly in integrating the operations of our constituent companies, could suffer if we are unable to attract and retain key management or other key employees.

Our success depends upon the continued service and performance of our senior management and other key personnel. Our senior executive team is critical to the management of our business and operations, as well as to the development of our strategy. The loss of the services of any members of our senior executive team could delay or prevent the successful implementation of our growth strategy, or our commercialization of new applications for our systems or other products, or could otherwise adversely affect our ability to manage our company effectively and carry out our business plan. Members of our senior management team may resign at any time. High demand exists for senior management and other key personnel (including scientific, technical and sales personnel) in the additive fabrication industry, and there can be no assurance that we will be able to retain such personnel. We experience intense competition for qualified personnel. While we intend to continue to provide competitive compensation packages to attract and retain key personnel, some of our competitors for these employees have greater resources and more experience, making it difficult for us to compete successfully for key personnel. If we cannot attract and retain sufficiently qualified technical employees for our research and development and manufacturing operations, we may be unable to achieve the synergies expected from mergers and acquisitions that we may effect from time to time, or to develop and commercialize new products or new applications for existing products. Furthermore, possible shortages of key personnel, including engineers, in the regions surrounding our Minnesota, New York, California, Texas, New Hampshire or Israeli facilities could require us to pay more to hire and retain key personnel, thereby increasing our costs.

The risk factor included in the 2013 Annual Report under the caption “ ***If our product mix shifts too far into lower margin products, our profitability could be reduced*** ” is restated in its entirety as follows:

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

Sales of certain of our existing products for commercial use have higher margins than others. For instance, our high-end commercial systems and related consumables yield a greater gross margin than our entry-level commercial systems. Furthermore, our desktop 3D printers and related consumables yield a lower gross margin than our entry-level commercial systems. As we continue to ship entry-level commercial systems and, to a greater extent, desktop 3D printers, including as a result of our MakerBot transaction, our sales of those systems have grown, and we expect them to continue to account for a growing percentage of total systems that we sell. Furthermore, some of those sales may displace sales of our other systems. If sales of our entry-level desktop 3D printers have the effect of reducing sales of our higher margin products, or, if for any other reason, our product mix shifts too far into lower margin products, and we are not able to sufficiently reduce the engineering, production and other costs associated with those products or substantially increase the sales of those products, our profitability could be reduced. A similar negative impact on our gross margins could result if we experience a substantial shift towards revenues generated by our AM parts and services business, which we expect to significantly broaden as a result of our recent acquisitions of Solid Concepts and Harvest Technologies, and which are characterized by lower margins relative to our products.

The risk factor included in the 2013 Annual Report under the caption " ***The markets in which we participate are competitive. Our failure to compete successfully could cause our revenues and the demand for our products to decline*** " is restated in its entirety as follows:

The markets in which we participate are competitive. Our failure to compete successfully could cause our revenues and the demand for our products to decline.

We compete for end-users with a wide variety of producers of systems that create models, prototypes, other 3D objects and end-use parts as well as producers of materials and services for these systems, including both additive and subtractive manufacturing methodologies, such as metal extrusion, computer-controlled machining and manual modeling techniques. Our principal competition currently consists of other manufacturers of systems for prototype development and customized manufacturing processes, including 3D Systems Corporation, EOS GmbH and EnvisionTEC GmbH, and, with respect to our entry-level desktop 3D printers, companies such as Delta Micro Factory, Affinia, Ultimaker, Printrbot, Leapfrog, Solidoodle, as well as 3D Systems Corporation. For our recently-broadened AM parts and services business, our chief competitors consist of 3D Systems Corporation, Materialise and many other smaller service providers. We may face additional competition in the future from new entrants into the marketplace, including companies that may have significantly greater resources than we have that may become new market entrants or may enter through acquisition or strategic or marketing partnerships with current competitors.

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

The risk factor included in the 2013 Annual Report under the caption " ***If our relationships with suppliers, especially with single source suppliers of components of our products, were to terminate or our manufacturing arrangements were to be disrupted, our business could be interrupted*** " is restated in its entirety as follows:

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

We purchase components and sub-assemblies for our systems, raw materials that are used in our consumables, and other component parts and raw materials for our AM services business, from third-party suppliers. While there are several potential suppliers of most of these component parts, sub-assemblies and raw materials, we currently choose to use only one or a limited number of suppliers for several of these components and materials. Our reliance on a single or limited number of vendors involves a number of risks, including:

- potential shortages of some key components;
- product performance shortfalls, if traceable to particular product components, since the supplier of the faulty component cannot readily be replaced;
- discontinuation of a product on which we rely;
- potential insolvency of these vendors; and
- reduced control over delivery schedules, manufacturing capabilities, quality and costs.

In addition, we require any new supplier to become “qualified” pursuant to our internal procedures. The qualification process involves evaluations of varying durations, which may cause production delays if we were required to qualify a new supplier unexpectedly. We generally assemble our systems and parts based on our internal forecasts and the availability of raw materials, assemblies, components and finished goods that are supplied to us by third parties, which are subject to various lead times. If certain suppliers were to decide to discontinue production of an assembly, component or raw material that we use, the unanticipated change in the availability of supplies, or unanticipated supply limitations, could cause delays in, or loss of, sales, increased production or related costs and consequently reduced margins, and damage to our reputation. If we were unable to find a suitable supplier for a particular component, material or compound, we could be required to modify our existing products or the end-parts that we offer to accommodate substitute components, material or compounds.

In particular, we rely on a sole supplier, Ricoh Printing Systems America, Inc., or Ricoh, for the printer heads for our PolyJet 3D printers. Under the terms of our agreement with Ricoh, we purchase printer heads and associated electronic components, and receive a non-transferable, non-exclusive right to assemble, use and sell these purchased products under Ricoh's patent rights and trade secrets. Due to the risk of a discontinuation of the supply of Ricoh printer heads and other key components of our products, we maintain excess inventory of those printer heads and other components. However, if our forecasts exceed actual orders, we may hold large inventories of slow-moving or unusable parts or raw materials, which could result in inventory write offs or write downs and have an adverse effect on our cash flow, profitability and results of operations. See “Item 4. Information on the Company—Business Overview—Manufacturing and Suppliers--Inventory and Suppliers—Ricoh Agreement” in our 2013 Annual Report for further discussion of this agreement.

The risk factor included in the 2013 Annual Report under the caption “ ***Discontinuation of operations at our manufacturing sites could prevent us from timely filling customer orders and could lead to unforeseen costs for us*** ” is restated in its entirety as follows:

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

We assemble and test the systems that we sell, and produce consumables for our systems, at single facilities in various locations that are specifically dedicated to separate categories of systems and consumables. Because of our reliance on all of these production facilities, a disruption at any of those facilities could materially damage our ability to supply 3D printers, other systems or consumable materials to the marketplace in a timely manner. Depending on the cause of the disruption, we could also incur significant costs to remedy the disruption and resume product shipments. Such disruptions may be caused by, among other factors, earthquakes, fire, flood and other natural disasters. Accordingly, any such disruption could result in a material adverse effect on our revenue, results of operations and earnings, and could also potentially damage our reputation.

The risk factor included in the 2013 Annual Report under the caption “ ***If we are not successful in completing the integration of our constituent companies from the Stratasys-Objet merger, the benefits of that merger may not be fully realized and the market price of our ordinary shares may be negatively affected*** ” is restated in its entirety as follows:

If we are not successful in completing the integration of our constituent companies from the Stratasys-Objet merger, the benefits of that merger may not be fully realized and the market price of our ordinary shares may be negatively affected.

Since it was consummated in December 2012, the Stratasys-Objet merger has involved the integration of significant aspects of the operations of companies that had previously operated independently with principal offices in distinct locations and geographically diverse organizations. As a combined company (and following our subsequent acquisitions of MakerBot, Solid Concepts and Harvest Technologies) we now have more than 2,500 employees in a total of 21 regional offices around the world. While integration activities have progressed well to date, the ongoing difficulties of coordinating our operations include:

- coordinating geographically separate organizations, including two sets of corporate headquarters on two different continents;
- coordinating sales, distribution and marketing functions, including integration and management of our constituent companies' sales channels;
- consolidating the financial reporting systems and ERP systems of our constituent companies;
- management of a substantially larger organization, with an increased number of employees over large geographic distances; and
- addressing inconsistencies among the companies in standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with suppliers, distributors, customers and employees.

As a result of these and other factors, we may not successfully complete the integration of the businesses of Stratasys and Objet. Furthermore, we may not realize all of the benefits and synergies of the Stratasys-Objet merger in the timeframe anticipated. It is also possible that such continuing integration and coordination arrangements could lead to the loss of members of our senior executive team, diversion of the attention of management, or the disruption or interruption of, or the loss of momentum in, our ongoing business, which could adversely affect our business and financial results. The occurrence of such negative results could adversely affect the market price of our ordinary shares.

The risk factor included in the 2013 Annual Report under the caption " ***As part of our growth strategy, we have sought, and will continue to seek, to acquire or to make investments in other businesses, patents, technologies, products or services. Our failure to do so successfully (including, if applicable, to finance such acquisitions or investments on favorable terms and to avoid adverse financial consequences) may adversely affect our financial results*** " is restated in its entirety as follows:

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

As part of our growth strategy, we expect to continue to regularly evaluate acquisitions or investments to expand our suite of products and services. Even if we are able to identify a suitable acquisition or investment, we may not be able to consummate any such transaction if we cannot reach an agreement on favorable terms or if we lack sufficient resources to finance the transaction on our own and cannot obtain financing at a reasonable cost or if regulatory authorities prevent such transaction from being consummated. If we proceed with a particular acquisition, we may have to use cash, issue new equity securities with dilutive effects on existing shareholders, incur indebtedness, assume contingent liabilities or amortize assets or expenses in a manner that might have a material adverse effect on our financial condition, results of operations or liquidity. If we incur indebtedness by drawing down under our senior credit facility, that would require us to comply with certain conditions and would subject us to certain limitations, as described below under the risk factor that is titled "Covenants in our credit agreement may restrict our business in many ways." As a result of an acquisition, we will also be required to record certain acquisition-related costs and other items as current period expenses, which would have the effect of reducing our reported earnings in the period in which an acquisition is consummated. We will also be required to record any post-closing goodwill or other long-lived asset impairment charges in the period in which they occur, which could result in a significant charge to our earnings in that period. We could also face unknown liabilities or write-offs.

The risk factor included in the 2013 Annual Report under the caption " ***We have experienced rapid and significant growth in our operations and intend to continue to grow, and if we cannot adequately adapt our infrastructure and properly integrate the internal or external sources of our growth in order to generate the intended benefits from it, our results of operations will suffer*** " is restated in its entirety as follows:

We have experienced rapid and significant growth in our operations and intend to continue to grow, and if we cannot adequately adapt our infrastructure and properly integrate the internal or external sources of our growth in order to generate the intended benefits from it, our results of operations will suffer.

We have experienced rapid and significant growth in our operations and intend to continue to grow, both organically and from acquisitions, such as the Stratasys-Object merger, the MakerBot transaction, the Solid Concepts acquisition and the Harvest Technologies acquisition. The adaptation of our infrastructure to our growth will require, among other things, continued development of our financial and management controls and management information systems, including our ongoing implementation of a unified enterprise resource planning system, management of our sales channel, increased capital expenditures, the ability to attract and retain qualified management personnel and the training of new personnel. We cannot be sure that our infrastructure, systems, procedures, business processes and managerial controls will be adequate to support the rapid and significant growth in our operations. Any delays in, or problems associated with, implementing, or transitioning to, new or enhanced systems, procedures, or controls to accommodate and support the requirements of our business and operations and to effectively and efficiently integrate acquired operations may adversely affect our ability to meet customer requirements, manage our product inventory, and record and report financial and management information on a timely and accurate basis.

Additional unforeseen difficulties and expenditures that may result from the integration of a new business or technology include:

- difficulty transitioning customers and other business relationships to our company;
- problems unifying management following a transaction;
- the loss of key employees from our existing or acquired businesses;
- diversion of management's attention to the assimilation of the technology and personnel of acquired businesses or new product or service lines; and
- difficulties in coordinating geographically disparate organizations and corporate cultures and integrating management personnel with different business backgrounds.

These potential negative effects could prevent us from realizing the benefits of an acquisition transaction or other growth opportunity. In that event, our competitive position, revenues, revenue growth, financial condition, results of operations and liquidity could be adversely affected, which could, in turn, adversely affect our share price and shareholder value.

The following risk factor is hereby added:

Our AM services business, offering parts used as prototypes, benchmarks and end-use parts in general, and, in the case of end-use parts, our sales to customers in the aerospace, medical and automotive industries, in particular, makes us more susceptible to product and other liability claims, which characterize operations in those industries. These activities and our accompanying exposure to claims will increase significantly as a result of our recent acquisitions of Solid Concepts and Harvest Technologies. Any such claims that are not adequately covered by insurance or for which insurance is not available may adversely affect our results of operations and financial condition.

As a result of our recent acquisitions of Solid Concepts and Harvest Technologies, and together with RedEye, our preexisting digital manufacturing service business, we expect to significantly broaden and increase our production and offering of AM parts, which are used by our customers as prototypes, benchmarks and end-use parts. In particular, we expect to provide these additive manufacturing services to customers in the aerospace, medical and automotive industries. The sale of end use parts in general, and to customers in the foregoing industries in particular, exposes us to possible claims for property damage and personal injury or death which may result from the use of these end-use parts. We may be potentially liable, in significant amounts, if an aircraft, automotive or medical part, component, or accessory or any other aviation, automotive or medical product that we have sold, produced or repaired fails, or if an aircraft or automobile for which our subsidiaries have provided services or in which their parts are installed crashes and the cause can be linked to those parts or cannot be determined. Solid Concepts and Harvest Technologies, as well as RedEye, carry liability insurance in amounts that we believe are adequate for their risk exposure and commensurate with industry norms. While we intend to monitor our insurance coverage as our additive manufacturing services business continues to grow, claims may arise in the future, and that insurance coverage may not be adequate or available to protect our consolidated company in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage for our AM services business in the future at an acceptable cost. Any liability claim against our AM services business that is not covered by adequate insurance could adversely affect our consolidated results of operations and financial condition.

The risk factor included in the 2013 Annual Report under the caption " ***Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees*** " is restated in its entirety as follows:

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

We generally enter into non-competition agreements with our employees. These agreements prohibit our employees from competing directly with us or working for our competitors or clients for a limited period after they cease working for us. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work and it may be difficult for us to restrict our competitors from benefiting from the expertise that our former employees or consultants developed while working for us. For example, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer that have been recognized by the courts, such as the secrecy of a company's confidential commercial information or the protection of its intellectual property. If we cannot demonstrate that such interests will be harmed, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or consultants and our ability to remain competitive may be diminished. In addition, non-competition agreements with employees are generally unenforceable in California, where most employees of Solid Concepts are located.

The risk factor included in the 2013 Annual Report under the caption " ***Compliance with disclosure rules regarding "conflict minerals" may require us to incur expenses or modify our products or operations and may also adversely affect the demand for some of our products and our operating results*** " is restated in its entirety as follows:

Compliance with disclosure rules regarding "conflict minerals" may require us to incur expenses or modify our products or operations and may also adversely affect the demand for some of our products and our operating results.

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012 the Commission promulgated final rules regarding disclosure of the use of certain minerals (tin, tantalum, tungsten, and gold), and certain of their derivatives, known as "conflict minerals," which are mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to prevent the sourcing of such minerals and metals produced from those minerals. As required by these new rules, in 2013, we commenced due diligence efforts to determine our use of conflict minerals, with initial disclosures required no later than June 2, 2014. We made our first conflict mineral filing with the Commission on June 2, 2014. The rules require us to make subsequent disclosures no later than May 31 of each following year. We expect that we will incur additional costs and expenses, which may be significant, in order to comply with these rules. Since our supply chain is complex, ultimately we may not be able to sufficiently verify the origins for any conflict minerals and metals used in our products through the due diligence procedures that we implement, which may adversely affect our reputation with our customers, shareholders, and other stakeholders. In such event, we may also face difficulties in satisfying customers who require that all of our products are certified as conflict mineral free. If we are not able to meet such requirements, customers may choose not to purchase our products, which could adversely affect our sales and the value of portions of our inventory. Further, there may be only a limited number of suppliers offering conflict free minerals and, as a result, we cannot be sure that we will be able to obtain metals, if necessary, from such suppliers in sufficient quantities or at competitive prices. Any one or a combination of these various factors could harm our business, reduce market demand for our products, and adversely affect our profit margins, net sales, and overall financial results.

The risk factor included in the 2013 Annual Report under the caption " ***Our Israeli headquarters and manufacturing and other significant operations may be adversely affected by political, economic and military instability in Israel*** " is restated in its entirety as follows:

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

One of our dual corporate headquarters, as well as all of our PolyJet-related manufacturing and research and development facilities, and some of our suppliers, are located in central and southern Israel. In addition, many of our key employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations. During the winter of 2008-2009, in November 2012 and once again at the current time (commencing in July 2014), Israel has been engaged in armed conflict with Hamas, a militia group and political party that controls the Gaza Strip, and during the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party. These conflicts involved missile strikes against civilian targets in various parts of Israel, including areas where some of our manufacturing facilities are located, and negatively affected business conditions in Israel. Any armed conflicts, terrorist activities or political instability in the region, including those related to the recent unrest in Syria, could adversely affect business conditions and could harm our results of operations and could make it more difficult for us to raise capital. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face. In addition, parties with whom we have agreements involving performance in Israel may claim that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements due to the political or security situation in Israel.

Furthermore, many of our male employees in Israel, including members of our senior management, are obligated to perform one month, and in some cases longer periods, of annual military reserve duty until they reach the age of 45 (or older, for citizens who hold certain positions in the Israeli armed forces reserves), and, in the event of a military conflict (such as the current conflict with Hamas), may be called to active duty. In response to increases in terrorist activity from time to time and as a result of the current conflict with Hamas, there have been periods of significant call-ups of military reservists, and some of our Israeli employees have been called up in connection with armed conflicts. It is possible that there will be similar large-scale military reserve duty call-ups in the future. Our operations could be disrupted by the absence of a significant number of Israeli employees or of one or more of our key Israeli employees. Such disruption could materially adversely affect our business and operations.

Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government is currently committed to covering the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by our Israeli operations could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions generally and could harm our results of operations.

The risk factor included in the 2013 Annual Report under the caption " ***If certain of our shareholders sell a substantial number of our ordinary shares, the market price of our ordinary shares could decline*** " is restated in its entirety as follows:

If certain of our shareholders sell a substantial number of our ordinary shares, the market price of our ordinary shares could decline.

Former MakerBot stockholders and certain MakerBot employees, former Solid Concepts stockholders and option holders, and certain Solid Concepts employees, and certain Harvest Technologies employees and former stockholders, may publicly sell ordinary shares that they have received or may in the future receive in connection with the MakerBot transaction, Solid Concepts acquisition or Harvest Technologies acquisition, as applicable. Under the terms of the MakerBot and Solid Concepts merger agreements, and the Harvest Technologies stock purchase agreement, we issued at the closing of the transactions on August 15, 2013, July 14, 2014 and August 1, 2014, respectively, 3,921,660 ordinary shares, 978,601 ordinary shares and 175,456 ordinary shares (after withholding certain shares for taxes, where applicable), which may be sold (or, in the case of the MakerBot transaction and Solid Concepts acquisition, which may have already been sold, in whole or part) to the public immediately following the closings, other than 823,265 ordinary shares that were issued at the Solid Concepts closing and that are subject to a six-month contractual lock-up. Those shares together constitute approximately 10% of our issued and outstanding shares, in the aggregate, as of the closing date of the Harvest Technologies acquisition (following the issuance of the shares in the Harvest Technologies acquisition). We may also issue up to an additional 2.5 million ordinary shares, approximately 1 million ordinary shares and 102,020 ordinary shares to the selling shareholders and/or employees in respect of periods through the end of 2014, mid-2017 and early 2018 pursuant to the terms of the MakerBot merger agreement, Solid Concepts merger agreement and Harvest Technologies stock purchase agreement, respectively, which may be subsequently resold without restriction (assuming that the related registration statement that we have filed remains in effect). Sales of a significant number of the foregoing shares in a short period of time could have the effect of depressing the market price of our ordinary shares.

The risk factor included in the 2013 Annual Report under the caption " ***The market price of our ordinary shares may be subject to fluctuation, regardless of our operating results and financial condition. As a result, our shareholders could incur substantial losses*** " is restated in its entirety as follows:

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

The market price of our ordinary shares since the Stratasys-Objet merger has been subject to substantial fluctuation. During 2013 and the first half of 2014 (through July 31, 2014), our ordinary shares have traded with closing prices that have ranged from $62.50 to $136.46. It is likely that the price of our ordinary shares will continue to be subject to substantial fluctuation regardless of our operating results or financial condition due to a number of factors, including:

- whether we achieve the perceived benefits of the Stratasys-Objet merger or other mergers or acquisitions as rapidly or to the extent anticipated by financial or industry analysts;
- whether the effects of the Stratasys-Objet merger or other mergers or acquisitions on our business and prospects are consistent with the expectations of financial or industry analysts;
- variations in our and our competitors' results of operations and financial condition;
- market acceptance of our products;
- the mix of products that we sell, and related services that we provide, during any period;
- changes in earnings estimates or recommendations by securities analysts;
- development of new competitive systems and services by others;
- our announcements of technological innovations or new products;
- delays between our expenditures to develop and market new or enhanced systems and consumables and the generation of sales from those products;
- developments concerning intellectual property rights;
- changes in the amount that we spend to develop, acquire or license new products, technologies or businesses;
- changes in our expenditures to promote our products and services;
- changes in the cost of satisfying our warranty obligations and servicing our installed base of systems;
- success or failure of research and development projects of the combined company or its competitors;
- the general tendency towards volatility in the market prices of shares of technology companies; and
- general market conditions and other factors, including factors unrelated to our operating performance.

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

Market prices for securities of technology companies historically have been very volatile. The market for these securities has from time to time experienced significant price and volume fluctuations for reasons unrelated to the operating performance of any one company. In the past, following periods of market volatility, public company shareholders have often instituted securities class action litigation. Such securities litigation could result in substantial costs and divert the resources and attention of our management from our business.

The risk factor included in the 2013 Annual Report under the caption " ***We are a foreign private issuer under the rules and regulations of the Commission and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the Commission than a domestic U.S. reporting company, which will reduce the level and amount of disclosure that you receive*** " is restated in its entirety as follows:

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

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

As a foreign private issuer, we are also permitted, and have begun, to follow certain home country corporate governance practices instead of those otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. We have informed NASDAQ that we follow home country practice in Israel with regard to, among other things, composition of our board of directors (whereby a majority of the members of our board of directors need not be "independent directors," as is generally required for domestic U.S. issuers), director nomination procedure and approval of compensation of officers. In addition, we have opted to follow home country law instead of the Listing Rules of the NASDAQ Stock Market that require that a listed company obtain shareholder approval for certain dilutive events, such as the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or greater interest in the company, and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on The NASDAQ Global Select Market may provide our shareholders with less protection than they would have as shareholders of a domestic U.S. company.

Our status as a foreign private issuer is subject to an annual review and test, and will be tested again as of June 30, 2015 (the last business day of our second fiscal quarter of 2015). If we lose our status as a foreign private issuer, we will no longer be exempt from such rules. Among other things, beginning on January 1, 2016, we would be required to file periodic reports and financial statements as if we were a company incorporated in the U.S.

The risk factor included in the 2013 Annual Report under the caption " ***If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as they apply to a foreign private issuer, or if our internal controls over financial reporting are not effective, the reliability of our financial statements may be questioned and our share price may suffer*** " is restated in its entirety as follows:

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as they apply to a foreign private issuer, or if our internal controls over financial reporting are not effective, the reliability of our financial statements may be questioned and our share price may suffer.

We are subject to the requirements of Section 404 of the Sarbanes-Oxley Act, or Section 404, which requires a company that is subject to the reporting requirements of the U.S. securities laws to conduct a comprehensive evaluation of its and its subsidiaries' internal controls over financial reporting. To comply with this statute, we are required to document and test our internal control procedures, and beginning with the filing of the 2013 Annual Report, our management was required to assess and issue a report concerning our internal controls over financial reporting. In addition, our independent registered public accounting firm is required to issue an opinion on the effectiveness on our internal control over financial reporting pursuant to Section 404. These matters were first tested in connection with the filing of the 2013 Annual Report with the Commission. With regards to MakerBot's internal controls over financial reporting, we have elected the one year exemption available under Section 404 for acquisitions, such that those controls will not be subject to the Section 404 reporting until the filing of our annual report on Form 20-F for 2014 with the Commission in 2015. We may make a similar election for a one year exemption with respect to Solid Concept's and Harvest Technologies' internal controls over financial reporting as well.

We have prepared for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our management's report. The continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming. As our business continues to grow internationally, our internal controls will become more complex and will require significantly more resources and attention to ensure that they remain effective overall. Over the course of testing our internal controls, our management may identify material weaknesses or significant deficiencies, which may not be remedied in a timely manner on an ongoing basis. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting, or if our independent registered public accounting firm identifies material weaknesses in our internal controls, investor confidence in our financial results may weaken, and our share price may suffer.