

# STRATASYS LTD.

## FORM 6-K (Report of Foreign Issuer)

Filed 11/05/14 for the Period Ending 11/05/14

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

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 November 2014

Commission File Number 001-35751

---

**STRATASYS LTD.**

(Translation of registrant's name into English)

**c/o Stratasys, Inc.  
7665 Commerce Way  
Eden Prairie, Minnesota 55344**

**2 Holtzman Street, Science Park  
P.O. Box 2496  
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of this Form 6-K), and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished .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 November 5, 2014, Stratasys Ltd., or Stratasys, released its financial results for the three and nine months ended September 30, 2014.

Attached hereto as Exhibit 99.1 are the unaudited, condensed consolidated financial statements of Stratasys for the three and nine months ended September 30, 2014 and 2013 (including the notes thereto) (the “Q3 2014 Financial Statements”).

Attached hereto as Exhibit 99.2 is Stratasys’ review of its results of operations and financial condition for the three and nine months ended September 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 101 are the Q3 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 be 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.

Dated: November 5, 2014

### **STRATASYS LTD.**

By: /s/ Erez Simha

Name: Erez Simha

Title: Chief Financial Officer and  
Chief Operating Officer

---

**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED**  
**SEPTEMBER 30, 2014**  
**(UNAUDITED)**

---

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014  
(UNAUDITED)**

<b><u>Item</u></b>	<b><u>Page</u></b>
<b>Consolidated Balance Sheets</b>	<b>3</b>
<b>Consolidated Statements of Operations and Comprehensive Loss</b>	<b>4</b>
<b>Consolidated Statements of Cash Flows</b>	<b>5-6</b>
<b>Notes to Condensed Consolidated Financial Statements</b>	<b>7 to 21</b>

---

**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Consolidated Balance Sheets**

<i>in thousands</i>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 383,501	\$ 414,088
Short-term bank deposits	75,375	200,370
Accounts receivable, net	140,676	99,200
Inventories	119,262	88,406
Investment in sales-type leases, net	7,478	6,696
Prepaid expenses	9,759	5,470
Deferred income taxes	22,268	16,501
Other current assets	37,114	21,398
<b>Total current assets</b>	<b>795,433</b>	<b>852,129</b>
<b>Non-current assets</b>		
Goodwill	1,425,416	1,195,891
Other intangible assets, net	607,662	622,330
Investment in sales-type leases	14,643	11,219
Amounts funded in respect of employee rights upon retirement	3,255	3,166
Property, plant and equipment, net	143,335	91,005
Other non-current assets	8,137	6,481
<b>Total non-current assets</b>	<b>2,202,448</b>	<b>1,930,092</b>
<b>Total assets</b>	<b>\$ 2,997,881</b>	<b>\$ 2,782,221</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 39,093	\$ 35,375
Short-term debt	50,000	-
Accrued expenses and other current liabilities	40,530	32,849
Accrued compensation and related benefits	36,228	21,441
Obligations in connection with acquisitions	42,037	12,027
Unearned revenues	40,909	36,033
<b>Total current liabilities</b>	<b>248,797</b>	<b>137,725</b>
<b>Non-current liabilities</b>		
Employee rights upon retirement	4,859	4,683
Obligations in connection with acquisitions - long term	37,132	16,998
Deferred tax liabilities	65,393	105,901
Unearned revenues - long term	5,528	3,315
Other non-current liabilities	18,502	13,812
<b>Total liabilities</b>	<b>380,211</b>	<b>282,434</b>

Contingencies, see note 9

Equity

Ordinary shares, NIS 0.01 par value, authorized 180,000 shares; 50,898 and 49,211 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	139	133
Additional paid-in capital	2,560,256	2,412,197
Retained earnings	58,135	85,549
Accumulated other comprehensive income (loss)	(1,355)	1,908
Equity attributable to Stratasys Ltd.	<u>2,617,175</u>	<u>2,499,787</u>
Non-controlling interest	495	-
Total equity	<u>2,617,670</u>	<u>2,499,787</u>
<b>Total liabilities and equity</b>	<b>\$ 2,997,881</b>	<b>\$ 2,782,221</b>



**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Consolidated Statements of Operations and Comprehensive Loss**

<i>in thousands, except per share data</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Net sales</b>				
Products	\$ 160,200	\$ 107,887	\$ 443,542	\$ 279,910
Services	43,410	17,739	89,474	49,408
	<u>203,610</u>	<u>125,626</u>	<u>533,016</u>	<u>329,318</u>
<b>Cost of sales</b>				
Products	85,437	53,565	219,853	148,339
Services	30,326	11,469	55,954	32,608
	<u>115,763</u>	<u>65,034</u>	<u>275,807</u>	<u>180,947</u>
<b>Gross profit</b>	<u>87,847</u>	<u>60,592</u>	<u>257,209</u>	<u>148,371</u>
<b>Operating expenses</b>				
Research and development, net	23,353	13,514	59,081	34,640
Selling, general and administrative	110,803	51,587	256,349	137,577
Change in fair value of obligations in connection with acquisitions	5,578	1,607	(1,289)	1,607
	<u>139,734</u>	<u>66,708</u>	<u>314,141</u>	<u>173,824</u>
<b>Operating loss</b>	<u>(51,887)</u>	<u>(6,116)</u>	<u>(56,932)</u>	<u>(25,453)</u>
<b>Financial income (expense), net</b>	<u>(1,384)</u>	<u>(452)</u>	<u>(2,383)</u>	<u>200</u>
<b>Loss before income taxes</b>	<u>(53,271)</u>	<u>(6,568)</u>	<u>(59,315)</u>	<u>(25,253)</u>
Income taxes	<u>(21,919)</u>	<u>80</u>	<u>(31,877)</u>	<u>(337)</u>
<b>Net loss</b>	<u>\$ (31,352)</u>	<u>\$ (6,648)</u>	<u>\$ (27,438)</u>	<u>\$ (24,916)</u>
Net income (loss) attributable to non-controlling interest	<u>(24)</u>	<u>(22)</u>	<u>(24)</u>	<u>46</u>
Net loss attributable to Stratasys Ltd.	<u>\$ (31,328)</u>	<u>\$ (6,626)</u>	<u>\$ (27,414)</u>	<u>\$ (24,962)</u>
<b>Net loss per ordinary share attributable to Stratasys Ltd.</b>				
Basic	\$ (0.62)	\$ (0.16)	\$ (0.55)	\$ (0.63)
Diluted	\$ (0.62)	\$ (0.16)	\$ (0.55)	\$ (0.63)
<b>Weighted average ordinary shares outstanding</b>				
Basic	50,490	41,976	49,717	39,754
Diluted	50,490	41,976	49,717	39,754
<b>Comprehensive Loss</b>				
Net loss	\$ (31,352)	\$ (6,648)	\$ (27,438)	\$ (24,916)
Other comprehensive income (loss), net of tax:				
Losses on securities reclassified into earnings	-	-	168	-
Foreign currency translation adjustments	(1,802)	1,852	(2,326)	1,497
Fair value adjustments on derivatives designated as cash flow hedges	(1,149)	188	(1,105)	188

Other comprehensive income (loss), net of tax	(2,951)	2,040	(3,263)	1,685
<b>Comprehensive loss</b>	<b>(34,303)</b>	<b>(4,608)</b>	<b>(30,701)</b>	<b>(23,231)</b>
Less: comprehensive income (loss) attributable to non-controlling interest	-	296	-	(43)
<b>Comprehensive loss attributable to Stratasys Ltd.</b>	<b>\$ (34,303)</b>	<b>\$ (4,904)</b>	<b>\$ (30,701)</b>	<b>\$ (23,188)</b>

*See accompanying notes to condensed consolidated financial statements.*

**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Consolidated Statements of Cash Flows**

<i>in thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (27,438)	\$ (24,916)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	79,155	66,421
Impairment Charges	14,635	-
Stock-based compensation	21,411	17,463
Deferred income taxes	(45,188)	(16,875)
Change in fair value of obligations in connection with acquisitions	(1,289)	1,607
Excess tax benefit from stock options	(916)	(1,962)
Other non-cash items	5,027	(656)
Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions:		
Accounts receivable, net	(32,972)	(21,594)
Inventories	(31,710)	(15,643)
Net investment in sales-type leases	(4,206)	(1,992)
Other receivables and prepaid expenses	(10,516)	(535)
Other non-current assets	813	5,943
Accounts payable	(615)	(9,300)
Other current liabilities	20,005	6,083
Unearned revenues	7,598	6,669
Other non-current liabilities	5,160	5,701
<b>Net cash provided (used) by operating activities</b>	<b>(1,046)</b>	<b>16,414</b>
<b>Cash flows from investing activities</b>		
Change in short-term bank deposits	115,959	(179,937)
Purchase of property and equipment	(43,799)	(20,607)
Cash paid for acquisitions, net of cash acquired	(141,706)	(8,758)
Purchase of long term investments	(3,267)	-
Acquisition of intangible assets	(2,803)	(1,326)
Proceeds from sales of marketable securities	1,634	-
Other investing activities	(81)	303
<b>Net cash used in investing activities</b>	<b>(74,063)</b>	<b>(210,325)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term debt	50,000	-
Payment of obligations in connection with acquisitions	(10,795)	-
Proceeds from secondary offering, net of expenses	-	462,942
Proceeds from exercise of stock options	7,587	10,004
Acquisition of non-controlling interest	(2,170)	-
Excess tax benefit from stock options	916	1,962
<b>Net cash provided by financing activities</b>	<b>45,538</b>	<b>474,908</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,016)</b>	<b>67</b>

<b>Net change in cash and cash equivalents</b>	(30,587)	281,064
<b>Cash and cash equivalents, beginning of period</b>	<u>414,088</u>	<u>133,826</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 383,501</u>	<u>\$ 414,890</u>

*See accompanying notes to condensed consolidated financial statements.*

**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Supplemental disclosure of cash flow information:**

<i>in thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Transfer of fixed assets to inventory	\$ 1,605	\$ 802
Transfer of inventory to fixed assets	6,079	4,712
Fair value of assets acquired, including \$6,501 and \$3,405 of cash acquired for the nine months ended 2014 and 2013, respectively	\$ 346,580	\$ 573,007
Less liabilities assumed	(17,363)	(79,357)
Net acquired assets	329,217	493,650
Cash paid for acquisitions	\$ 148,207	\$ 12,163
Shares and other consideration	181,010	481,487
	\$ 329,217	\$ 493,650

**STRATASYS LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Basis of Presentation and Consolidation**

Stratasys Ltd. (together with its subsidiaries, 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 period presentation. The results of operations for the three and nine months ended September 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 its 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 commencing January 1, 2014. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 2. Acquisitions**

*Solid Concepts transaction*

On July 14, 2014 (the “Solid Concepts transaction date”), 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 \$187.0 million. This transaction, together with the Harvest transaction, which is described below, is expected to enable the Company to expand its existing digital manufacturing service business, creating a leading strategic platform to meet a broad range of customers' additive manufacturing needs and provide opportunities to leverage manufacturing services capabilities.

In exchange for 100% of the outstanding shares of Solid Concepts the Company issued 978,601 ordinary shares, paid cash upon closing and is obligated to pay additional cash payment deferred for six months, as well as, deferred payments in three separate annual installments after the Solid Concepts transaction date (“deferred payments”). Subject to certain requirements for cash payments, the Company retains the discretion to settle the deferred payments in its shares, cash or any combination of the two. The deferred payments are also subject to certain adjustments based on the Company’s share price.

The Solid Concepts transaction is reflected in accordance with ASC Topic 805, “Business Combinations”, using the acquisition method of accounting with the Company as the acquirer. The following table summarizes the fair value of the consideration transferred to Solid Concepts stockholders for the Solid Concepts transaction (in thousands):

Issuance of ordinary shares	\$ 97,869
Cash payments	40,780
Restricted payment	3,839
Deferred payments	44,525
Total fair value of consideration transferred	<u>\$ 187,013</u>

The fair value of the ordinary shares issued was determined based on the closing market price of the Company’s ordinary shares on the Solid Concepts transaction date.

The fair value of the deferred payments was determined based on the closing market price of the Company’s ordinary shares on the Solid Concepts transaction date, adjusted to reflect discount for lack of marketability for the applicable periods. Based on the Company’s share price as of September 30, 2014, the total undiscounted amount of the deferred payments is approximately \$60.2 million. The deferred payments are recognized as liabilities at fair value in the Company’s consolidated balance sheets and are classified under short-term and long term obligations in connection with acquisitions. 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. During the third quarter of 2014, the Company recorded an expense of \$7.5 million due to the revaluation of the deferred payments.

Under the terms of the definitive agreement, certain of Solid Concepts’ employees may also qualify for retention-related and other payments of \$76.4 million, based on the Company’s share price as of the Solid Concepts transaction date, of which, \$19.0 million was paid in cash upon closing and were expensed as incurred. The remaining \$57.4 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. Expense due to retention-related payments of \$8.5 million was recorded during the third quarter of 2014 from the Solid Concepts transaction date through September 30, 2014. Based on the Company’s share price as of September 30, 2014, the total future retention-related payments will amount to approximately \$65.4 million.

**STRATASYS LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the Solid Concepts transaction date. The estimated fair values are preliminary and based on the information that was available as of September 30, 2014. Thus the measurements of fair value reflected are subject to changes and such changes could be significant. The allocation of the purchase price to assets acquired and liabilities assumed is as follows (in thousands):

	<b>Allocation of Purchase Price</b>
Cash and cash equivalents	\$ 3,225
Accounts receivable, net	8,793
Inventories	2,391
Other assets	1,506
Property, plant and equipment	14,975
Other intangible assets	37,606
Goodwill	126,372
<b>Total assets acquired</b>	<b>194,868</b>
Accounts payable	3,055
Accrued expenses and other current liabilities	4,281
<b>Total liabilities assumed</b>	<b>7,336</b>
Non controlling interest	519
<b>Net assets acquired</b>	<b>\$ 187,013</b>

The allocation of the purchase price to the net assets acquired and liabilities assumed resulted in the recognition of the following intangible assets (in thousands):

	Amount	Weighted Average Life - Years
Customer relationships - additive manufacturing	\$ 21,578	6.5
Customer relationships - traditional	14,899	6.5
<b>Total</b>	<b>\$ 36,477</b>	

The fair values of the customer relationships agreements were estimated using a discounted cash flow method with the application of the multi-period excess earnings method. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows attributable only to the subject intangible asset after deducting contributory asset charges.



**STRATASYS LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The useful life of the intangible assets for amortization purposes was determined considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors, including legal, regulatory, contractual, competitive, economic or other factors that may limit the useful life of intangible assets.

The goodwill recognized as a result of the Solid Concepts transaction is attributable primarily to the strategic and synergistic opportunities in the entry level portion of the additive manufacturing spectrum, cross-selling synergies, expanded solutions portfolio, assembled workforce and economies of scale. The related goodwill and intangible assets are deductible for tax purposes.

The unaudited pro forma condensed financial results have been prepared using the acquisition method of accounting and are based on the historical financial information of the Company and Solid Concepts. The unaudited pro forma condensed financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition of Solid Concepts occurred on January 1, 2013, or of future results of the combined entities. The unaudited pro forma condensed financial information does not reflect any operating efficiencies and expected realization of cost savings or synergies associated with the acquisition .

Unaudited supplemental pro forma combined results of operations (in thousands, except per share data):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net sales	\$ 205,356	\$ 142,010	\$ 568,274	\$ 375,985
Net loss attributable to Stratasys Ltd.	(18,203)	(12,347)	(15,590)	(56,459)
Net loss per ordinary share attributable to Stratasys Ltd.- basic and diluted	\$ (0.36)	\$ (0.29)	\$ (0.31)	\$ (1.39)

Adjustments for the supplemental pro forma combined results of operations are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Supplemental pro forma combined results of operations:</b>				
Adjustments due to amortization of intangibles	\$ 69	\$ 1,612	\$ 2,893	\$ 4,835
Adjustments due to retention bonuses	(3,993)	9,986	5,086	29,959
Adjustments due to expenses related to business combination (deal fees and other integration expenses)	(21,362)	(220)	(26,327)	19,369
Adjustments due to financial expenses related to Solid Concept's debts	(182)	(79)	(406)	(254)
Taxes related adjustments to the supplemental pro forma	8,883	(4,320)	5,519	(20,382)
	<u>\$ (16,585)</u>	<u>\$ 6,979</u>	<u>\$(13,235)</u>	<u>\$ 33,527</u>

The results of Solid Concepts' operations have been included in the Company's condensed consolidated financial statements commencing July 14, 2014.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

*GrabCAD transaction*

On September 22, 2014 the Company acquired 100% of the outstanding shares of GrabCAD Inc. (“GrabCAD”), which operates GrabCAD Workbench, a cloud based 3D computer aided-design (“CAD”) collaboration platform enabling engineering teams to manage, share and view CAD files as well as enhancing collaboration tools and improving accessibility relating to 3D CAD content.

GrabCAD is expected to contribute accelerated innovation and increased value to a growing universe of customers seeking to utilize 3D printing solutions in the 3D ecosystem.

Under the terms of the definitive agreement with GrabCAD, certain of GrabCAD’s employees may also qualify for certain retention-related payments.

*Harvest transaction*

On August 1, 2014, the Company acquired 100% of the outstanding shares of Harvest Technologies Inc. (“Harvest”), a specialty additive manufacturing service bureau. This transaction, together with Solid Concepts transaction is expected to enable the Company to expand its existing digital manufacturing service business and to enhance its expertise in parts production, as well as materials and systems knowhow. Under the terms of the definitive agreement with Harvest, certain of Harvest’s employees may also qualify for certain retention-related payments.

Financial information giving effect to this business combination has not been provided as the acquisition is not material.

*MakerBot Europe transaction*

On August 1, 2014 the Company acquired certain assets of HAFNER’S BÜRO, which is MakerBot’s reseller in Germany. This acquisition will enable the Company to expand its desktop 3D printing operations throughout the European market.

The Company accounted for this transaction as a 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.

Financial information giving effect to this business combination has not been provided as the acquisition is not material.

*Interfacial Solutions transaction*

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.

Financial information giving effect to this business combination has not been provided as the acquisition is not material.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

*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 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.

Under the transaction agreement, MakerBot stockholders were eligible 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 approximately 800,000 of the Company’s ordinary 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 ordinary 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. Because the amount of the earn-out obligation is based on the Company’s ordinary shares, changes in the price of the Company’s ordinary shares through the earn-out determination date will change the dollar obligation. 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 fair value of the earn-out obligation for the second earn-out period to be approximately \$9.5 million, as of September 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. The bonus payments for the second earn-out period, if earned, will be made in the Company’s shares or cash, or a combination thereof, at the Company’s discretion.

The unaudited pro forma condensed financial results have been prepared using the acquisition method of accounting and are based on the historical financial information of the Company and MakerBot. The unaudited pro forma condensed financial results presented below have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition of MakerBot occurred on January 1, 2012, or of future results of the combined entities. The unaudited pro forma condensed financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisition.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Unaudited supplemental pro forma combined results of operations (in thousands, except per share data):

	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2013</b>	<b>September 30, 2013</b>
Net sales	\$ 131,170	\$ 363,161
Net loss attributable to Stratasys Ltd.	(6,108)	(27,165)
Net loss per ordinary share attributable to Stratasys Ltd.- basic and diluted	\$ (0.14)	\$ (0.63)

Adjustments for the supplemental pro forma combined results of operations are as follows (in thousands):

	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2013</b>	<b>September 30, 2013</b>
Increase in amortization of intangibles	\$ (3,779)	\$ (13,841)
Adjust performance bonus expenses	1,597	(5,001)
Adjust expenses related to business combination (deal fees, inventory, interest and deferred revenues step-up)	3,069	8,508
Adjust taxes related to the adjustments to the supplemental pro forma	1,118	6,672
	<u>\$ 2,005</u>	<u>\$ (3,662)</u>

*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.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 3. Inventories**

Inventories consisted of the following (in thousands):

	September 30, 2014	December 31, 2013
Finished goods	\$ 61,824	\$ 42,251
Work-in-process	4,221	164
Raw materials	53,217	45,991
	<u>\$ 119,262</u>	<u>\$ 88,406</u>

**Note 4. Goodwill and Other Intangible Assets**

*Goodwill*

Changes in the carrying amount of the Company's goodwill for the nine months ended September 30, 2014, are as follows (in millions):

Goodwill as of December 31, 2013	\$ 1,195.9
Goodwill acquired	231.9
Translation differences	(2.4)
Goodwill as of September 30, 2014	<u>\$ 1,425.4</u>

As of October 1, 2014, the Company performed its annual test for goodwill impairment, based on the reporting units to which the goodwill is allocated to. Except for MakerBot reporting unit, the Company performed a qualitative test for goodwill, and concluded that it is more likely than not that the fair value of each reporting unit exceeds its carrying amount.

For the MakerBot reporting unit, the Company performed a quantitative test by comparing the fair value of the reporting unit to its carrying amount. Based on this analysis, the fair value of MakerBot reporting unit exceeds its carrying amount by 5%. The carrying amount of goodwill which is assigned to this reporting unit is \$376 million.

When evaluating the fair value of MakerBot reporting unit the Company used a discounted cash flow model. Key assumptions used to determine the estimated fair value include: (a) expected cash flow for the five-year period following the testing date (including market share, sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate of 3.5% determined based on the growth prospects of the reporting unit; (c) a discount rate of 14% based on management's best estimate of the after-tax weighted average cost of capital.

A decrease in the growth rate of 1% or an increase of 1% to the discount rate will reduce the fair value of MakerBot reporting unit by \$35 million and \$54 million, respectively.

The Company will continue to monitor MakerBot reporting unit in an effort to determine if events and circumstances warrant further interim impairment testing.

Based on the Company's assessment as of October 1, 2014 no goodwill was determined to be impaired.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

*Other Intangible Assets*

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

	September 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technology	\$ 472,792	\$ 91,886	\$ 447,842	\$ 54,029
Patents	15,018	7,727	14,065	6,523
Trademarks and trade names	59,988	8,085	59,019	3,817
Customer relationships	146,690	21,876	100,679	10,793
Non-compete agreements	10,843	3,266	10,354	1,249
Capitalized software development costs	17,137	14,205	16,612	13,828
In process research and development	32,239	-	63,998	-
	754,707	\$ 147,045	712,569	\$ 90,239
Accumulated amortization	147,045		90,239	
Net book value of amortizable intangible assets	\$ 607,662		\$ 622,330	

In process research and development with a gross carrying value of \$29.2 million as of December 31, 2013, of which \$23.7 million was acquired in connection with the MakerBot transaction, was launched during the nine months ended September 30, 2014 and is now classified as developed technology with a seven-year weighted average life for amortization.

During the third quarter of 2014 the Company recorded impairment charges of \$14.6 million related to its Digitizer desktop 3D scanner (“Digitizer”). The Company assessed the recoverability of the Digitizer desktop 3D scanner based on the estimated undiscounted future cash flows expected to result from the Digitizer. The impairment charges were measured as the difference between the carrying amount of the Digitizer and its fair value. The fair value of the Digitizer was determine based on a discounted cash flow model using updated future revenue and operating income projections.

Amortization expense relating to intangible assets for the three-month periods ended September 30, 2014 and 2013 was approximately \$ 21.3 million and \$15.7 million, respectively.

Amortization expense relating to intangible assets for the nine-month periods ended September 30, 2014 and 2013 was approximately \$ 60.2 million and \$41.9 million, respectively.

As of September 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 3 months of 2014	\$ 21,185
2015	83,470
2016	82,846
2017	81,224
2018	76,249
Thereafter	\$ 230,449

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 5. 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 ordinary shares and the potential dilutive ordinary 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 in connection with the MakerBot transaction.

The following table presents the numerator and denominator of the basic and diluted loss per share computations for the three and nine months ended September 30, 2014 and 2013:

(in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Numerator:</b>				
Net loss attributable to Stratasys Ltd.– for the computation				
of basic and diluted net loss per share	\$ (31,328)	\$ (6,626)	\$ (27,414)	\$ (24,962)
<b>Denominator:</b>				
Weighted average shares – denominator for basic and				
diluted net loss per share	50,490	41,976	49,717	39,754
<b>Net loss per share attributable to Stratasys Ltd.</b>				
Basic	\$ (0.62)	\$ (0.16)	\$ (0.55)	\$ (0.63)
Diluted	\$ (0.62)	\$ (0.16)	\$ (0.55)	\$ (0.63)

The computation of diluted net loss per share excluded stock options and RSUs and shares held back in connection with the MakerBot transaction to purchase 2.65 million and 3.36 million shares for the three and nine months ended September 30, 2014 and 2013, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

**Note 6. Income Taxes**

The Company’s effective tax rate was 41.1% compared to a negative effective tax rate of 1.2% for the three-month periods ended September 30, 2014 and 2013, respectively, and 53.7% and 1.3% in the nine-month periods ended September 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 \$1.9 million and \$8.7 million attributable to the change in fair value of the Company’s earn-out obligations in the three and nine-month periods ended September 30, 2014, is non-taxable, and therefore had a significant impact on the effective tax rate in this period.

In addition, during the third quarter of 2014, the Company adjusted its estimation of its long-term tax rates in Israel. As a result, the Company recorded an approximately \$3.2 million in its income tax expense and an increase in its deferred tax liabilities associated with the amortization of the intangible assets.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**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):

	September 30, 2014		
	Level 2	Level 3	Total
<b>Assets:</b>			
Foreign exchange forward contracts not designated as hedging instruments	\$ 4,473	\$ -	\$ 4,473
<b>Liabilities:</b>			
Foreign exchange forward contracts not designated as hedging instruments	\$ (1,482)	-	(1,482)
Foreign exchange forward contracts designated as hedging instruments	\$ (952)	-	(952)
Obligations in connection with acquisitions	-	(61,466)	(61,466)
	<u>\$ 2,039</u>	<u>\$ (61,466)</u>	<u>\$ (59,427)</u>

	December 31, 2013		
	Level 2	Level 3	Total
<b>Assets:</b>			
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
<b>Liabilities:</b>			
Foreign exchange forward contracts not designated as hedging instruments	(1,543)	-	(1,543)
Obligations in connection with acquisitions	-	(29,025)	(29,025)
	<u>\$ 545</u>	<u>\$ (29,025)</u>	<u>\$ (28,480)</u>



**STRATASYS LTD.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The following table is a reconciliation of the change for those financial liabilities where fair value measurements are estimated utilizing Level 3 inputs, which consist of obligations in connection with acquisitions (in thousands):

	<b>Obligations in connection with acquisitions</b>	
Fair value as of December 31, 2013	\$	29,025
Payments		(10,795)
Additions		44,525
Gains recognized in earnings, net		(1,289)
Fair value as of September 30, 2014	\$	61,466

The Company's additions to the obligations in connection with acquisitions are related to the deferred payments in connection with the Solid Concepts transaction. The Company's payments of the obligations in connection with acquisitions are related to the earn-out payment in connection with the MakerBot transaction. For further information on these obligations, see note 2.

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

	<b>Balance sheet location</b>	<b>Fair Value</b>		<b>Notional Amount</b>	
		<b>September 30, 2014</b>	<b>December 31, 2013</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 4,473	\$ 301	\$ 63,000	\$ 12,490
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	-	153	-	5,760
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(1,482)	(1,543)	45,700	54,000
Liability derivatives -Foreign exchange contracts, designated as cash flow hedge	Accrued expenses and other current liabilities	(952)	-	18,150	-
		<u>\$ 2,039</u>	<u>\$ (1,089)</u>	<u>\$ 126,850</u>	<u>\$ 72,250</u>

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 September 30, 2014, the Company had foreign exchange forward contracts, not designated as hedging instruments in effect for the conversion of \$63.0 million into €46.5 million and \$45.7 million into NIS 162.9 million. These derivatives are primarily used to reduce the impact of foreign currency fluctuations on certain balance sheet exposures. With respect to such derivatives, gain of \$4.6 million and a loss of \$1.2 million were recognized under financial income (expense), net for the three-month periods ended September 30, 2014 and 2013, respectively. Gains of \$4.7 million and \$0.8 million were recognized under financial income (expense), net for the nine-month periods ended September 30, 2014 and 2013, respectively. Such gains offset the revaluation of the balance sheet items, which also recorded under financial income (expense), net.

**STRATASYS LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

As of September 30, 2014, the Company had foreign exchange forward contracts in effect for the conversion of \$18.2 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 \$1.1 million for the three-month and the nine-month periods ended September 30, 2014, respectively are included in the Company's accumulated other comprehensive income as of September 30, 2014. There were no material realized gains or losses with respect to those contracts during the three-month and nine-month periods ended September 30, 2014. These contracts mature through March 31, 2015.

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, short-term debt, accounts payable and accruals. The fair value of these financial instruments approximates their carrying values.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 8. Stock-Based Compensation Plan**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Cost of sales	\$ 1,282	\$ 793	\$ 3,228	\$ 2,059
Research and development, net	1,098	821	2,921	2,567
Selling, general and administrative	5,217	4,998	15,262	12,837
<b>Total stock-based compensation expenses</b>	<b>\$ 7,597</b>	<b>\$ 6,612</b>	<b>\$ 21,411</b>	<b>\$ 17,463</b>

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

	<b>Number of Options</b>	<b>Weighted Average</b>
		<b>Exercise Price</b>
Options outstanding as of January 1, 2014	2,007,433	\$ 29.66
Granted	239,759	74.49
Exercised	(532,547)	14.20
Forfeited	(36,543)	50.88
Options outstanding as of September 30, 2014	<u>1,678,102</u>	<u>\$ 40.50</u>
Exercisable options as of September 30, 2014	<u>813,413</u>	<u>\$ 21.32</u>

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 nine-month period ended September 30, 2014 was \$67.47.

During the nine-month periods ended September 30, 2014 and 2013, the Company issued 532,547 and 1,265,673 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$7.6 million and \$10.0 million for the nine-month periods ended September 30, 2014 and 2013, respectively.

As of September 30, 2014, the unrecognized compensation cost related to all unvested stock options of \$38.7 million is expected to be recognized as an expense over a weighted-average period of 1.5 years.

During the nine-month periods ended September 30, 2014 and 2013, the Company granted RSUs for 115,129 and 191,608 ordinary shares of the Company, respectively. The fair value of RSUs is determined based on the quoted price of the Company’s ordinary shares on the date of the grant.

As of September 30, 2014, the unrecognized compensation cost related to all unvested RSUs of \$26.4 million is expected to be recognized as expense on a straight-line basis over a weighted-average period of 3.2 years.

**STRATASYS LTD.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**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 (\$149,000). 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 (\$119,000) 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 central 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 the parties submitted summation briefs. The court's decision is pending.

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.

**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 on August 7, 2014.*

**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 2,800 employees and hold more than 550 granted or pending additive manufacturing patents globally.

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 by, among other things, increasing awareness of the features of our technology and product offerings. To this end, we have recently made acquisitions that we believe will help us develop in these areas of additive manufacturing and 3D printing.

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 lower price 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, plant 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.

## Recent acquisitions

On July 14, 2014 we 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 \$187.0 million.

In exchange for 100% of the outstanding shares of Solid Concepts we issued 978,601 ordinary shares and paid cash upon closing in the amount of \$40.8 million. We will also pay additional cash payment deferred for six months after the Solid Concepts transaction date in the amount of \$3.8 million, as well as, deferred payments in three separate annual installments after the Solid Concepts transaction date that were evaluated and recorded at a fair value of \$44.5 million as of Solid Concepts transaction date. Subject to certain requirements for cash payments, we retain the discretion to settle the deferred payments in our shares, cash or any combination of the two. The deferred payments are also subject to certain adjustments based on our share price.

Under the terms of the definitive agreement, certain of Solid Concepts’ employees may also qualify for retention-related and other payments of \$76.4 million, based on the our share price as of the Solid Concepts transaction date, of which, \$19.0 million was paid in cash upon closing and were expensed as incurred. The remaining \$57.4 million will be paid in three separate annual installments.

Subject to certain requirements for cash payments, we retain the discretion to settle any of the amounts payable in our shares, cash or any combination of the two. These amounts are also subject to certain adjustments based on our share price and other adjustments.

On August 1, 2014, we acquired 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.

We believe that the acquisition of Solid Concepts and Harvest, combined with our RedEye Service, will create a leading strategic platform to meet a broad range of customers' additive manufacturing needs and provides opportunities to leverage manufacturing services capabilities. The acquisition of the two companies will also enable us to enhance our expertise in parts production, as well as materials and systems knowhow. We believe that the integration with our existing RedEye Service will enable us to provide our customers with full service offerings that provide a variety of technologies and custom manufacturing solutions and to focus on high-end production applications

On September 23, 2014 we acquired 100% of the outstanding shares of GrabCAD Inc. (“GrabCAD”), which operates GrabCAD Workbench, a cloud based 3D computer aided-design (“CAD”) collaboration platform enabling for engineering teams to manage, share and view CAD files as well as enhancing collaboration tools and improving accessibility relating to 3D CAD content.

This acquisition is expected to enable us to provide our customers with enhanced collaboration tools and improved accessibility relating to 3D CAD content. The addition of GrabCAD Workbench enables us to offer customers a solution to drive communication and ease of use throughout the design and 3D printing process. With GrabCAD we expect to have the opportunity to further partner with CAD vendors and other ecosystem partners while offering innovative collaboration tools related to 3D CAD. GrabCAD also brings us an industry leading team of software professionals with a deep understanding of the needs of designers and engineers as well as global, leading and fast growing community of mechanical engineers.

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

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.

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 third quarter, we continued to globally expand our 3D desktop solutions' sales channels in the United States through new collaborations with top resellers and in Japan, by leveraging our strong presence of our local subsidiary. We are also expected to expand our penetration in the European market through the acquisition of HAFNER'S BÜRO, as described above.

### **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 nine months ended September 30, 2014 with the corresponding periods in 2013.

#### ***Comparison of Three Months Ended September 30, 2014 to Three Months Ended September 30, 2013***

Our net sales in the three months ended September 30, 2014 were \$203.6 million as compared to net sales of \$125.6 million in the three months ended September 30, 2013, representing an increase of 62.1%. The increase was mainly a result of strong business performance in our growing market and the inclusion of a full quarter of MakerBot net sales and the inclusion of Solid Concepts net sales.

For the three months ended September 30, 2014, we recorded net loss attributable to Stratasys Ltd. of \$31.3 million, or \$0.62 per diluted share, as compared to net loss of \$6.6 million or \$0.16 per diluted share, for the three months ended September 30, 2013. The increase in the net loss during the three months ended September 30, 2014 was mainly a result of higher merger and acquisition related expenses, due principally to the Solid Concepts transaction, impairment charges and higher amortization expenses, partially offset by higher gross profit, and a favorable effective tax rate, as discussed below.

## Results of Operations

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

	Three Months Ended September 30,			
	2014		2013	
	U.S. \$ in	% of	U.S. \$ in	% of
	thousands	Net sales	thousands	Net sales
Net sales	\$ 203,610	100.0%	\$ 125,626	100.0%
Cost of sales	115,763	56.9%	65,034	51.8%
Gross profit	87,847	43.1%	60,592	48.2%
Research and development, net	23,353	11.5%	13,514	10.8%
Selling, general and administrative	110,803	54.4%	51,587	41.1%
Change in fair value of obligations in connection with acquisitions	5,578	2.7%	1,607	1.3%
Operating loss	(51,887)	-25.5%	(6,116)	-4.9%
Financial expense, net	(1,384)	-0.7%	(452)	-0.4%
Loss before income taxes	(53,271)	-26.2%	(6,568)	-5.2%
Income taxes	(21,919)	-10.8%	80	0.1%
Net loss attributable to Stratasys Ltd.	(31,328)	-15.4%	(6,626)	-5.3%

## 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 September 30,		
	2014	2013	% Change
	U.S. \$ in thousands		
Products	\$ 160,200	\$ 107,887	48.5%
Services	43,410	17,739	144.7%
	\$ 203,610	\$ 125,626	62.1%

### Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) increased by \$52.3 million for the three months ended September 30, 2014, or 48.5%, as compared to the three months ended September 30, 2013.

The increase in products sales was driven by an organic growth of \$37.5 million for the three months ended September 30, 2014, or 34.6% as compared to the three months ended September 30, 2013, as well as the inclusion of a full quarter of MakerBot revenues.

The number of systems shipped increased to 10,965 units as compared to 5,925 units shipped in the three months ended September 30, 2013. Unit sales for the period increased at a higher rate than revenues due to the increased percentage of MakerBot units shipped as those units generally carry a lower average price per unit. The growth in revenue 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 September 30, 2014 increased by 32.3% as compared to the three months ended September 30, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems. In particular, the strong sales of our Production series and high-end Design series systems in prior periods contributed to strong consumables sales growth given their relatively higher consumable utilization rates. We believe that our growing installed base, particularly that of the Production series and high-end Design series systems, are positive indicators of consumables revenues growth in future periods.



## Services Revenues

Services revenues (including service bureau platform, maintenance and other services) increased by \$25.7 million for the three months ended September 30, 2014, or 144.7%, as compared to the three months ended September 30, 2013. The increase in services revenues was primarily attributable to partial inclusion of the revenues of Solid Concepts which was acquired early the third quarter of 2014. Service revenues also increased organically from maintenance contracts and service parts, reflecting our growing installed base of 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 September 30,				
	2014		2013		% Change
	U.S.\$ in	% of	U.S.\$ in	% of	
	thousands	Net sales	thousands	Net sales	
North America	\$ 116,405	57.2%	\$ 67,449	53.7%	72.6%
EMEA	44,646	21.9%	33,294	26.5%	34.1%
Asia Pacific	39,754	19.5%	23,403	18.6%	69.9%
Other	2,805	1.4%	1,480	1.2%	89.5%
	<u>\$ 203,610</u>	<u>100.0%</u>	<u>\$ 125,626</u>	<u>100.0%</u>	<u>62.1%</u>

Revenues in all regions increased for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, due to strong demand for our products, as well as the inclusion of a full quarter of MakerBot revenues and Solid Concepts revenues.

## Gross Profit

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

	Three Months Ended September 30,		
	2014	2013	% Change
<b>Gross profit attributable to:</b>	<b>U.S. \$ in thousands</b>		
Products	\$ 74,763	\$ 54,322	37.6%
Services	13,084	6,270	108.7%
	<u>\$ 87,847</u>	<u>\$ 60,592</u>	<u>45.0%</u>

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

Gross profit as a percentage of revenues from:	Three Months Ended September 30,		
	2014	2013	% Change
Products	46.7%	50.4%	-7.3%
Services	30.1%	35.3%	-14.7%
Total gross profit	<u>43.1%</u>	<u>48.2%</u>	<u>-10.5%</u>

Gross profit attributable to products sales increased by \$20.5 million, or 37.6%, to \$74.8 million for the three months ended September 30, 2014 as compared to \$54.3 million for the three months ended September 30, 2013. Gross profit from services increased by \$6.8 million, or 108.7%, to \$13.1 million for the three months ended September 30, 2014 as compared to \$6.3 million for the three months ended September 30, 2013.

The increase is primarily a result of an increase in revenues across all product lines and the inclusion of a full quarter of MakerBot results for the third quarter of 2014 as well as the inclusion of Solid Concepts results .

Gross profit attributable to products sales as a percentage of revenue decreased to 46.7% for the three months ended September 30, 2014 as compared to 50.4% for the three months ended September 30, 2013, mainly due to impairment charges of \$11.6 million related to our Digitizer desktop 3D scanner (“Digitizer”) which was partially offset by 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 as a percentage of services revenues in the three months ended September 30, 2014 decreased from 35.3% to 30.1% as compared to the three months ended September 30, 2013. The decrease primarily reflects Solid Concepts and Harvest merger related expenses during the quarter.

## 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:

	<b>Three Months Ended September 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>% Change</b>
	<b>U.S. \$ in thousands</b>		
Research and development, net	\$ 23,353	\$ 13,514	72.8%
Selling, general & administrative	110,803	51,587	114.8%
Change in fair value of obligations in connection with acquisitions	5,578	1,607	247.1%
	<u>\$ 139,734</u>	<u>\$ 66,708</u>	109.5%
Percentage of net sales	68.6%	53.1%	

Research and development expenses, net for the three months ended September 30, 2014 increased by \$9.8 million, or 72.8% as compared to the three months ended September 30, 2013. The increase was primarily due to the inclusion of a full quarter of MakerBot results and an increase in headcount to support new research and development initiatives. The headcount increase reflects our continued investments in research and development projects, 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. An additional increase in our research and development expense is due to impairment charges of \$3.0 million related to research and development projects for our Digitizer.

Research and development expense, net for three months ended September 30, 2014 as a percentage of sales was 11.5%, compared to 10.8% in the three months ended September 30, 2013. Selling, general and administrative expenses for the three months ended September 30, 2014 amounted to \$110.8 million, compared to \$51.6 million for the three months ended September 30, 2013.

Selling, general and administrative expenses for the three months ended September 30, 2014 as percentage of net sales were 54.4%, compared to 41.1% for the three months ended September 30, 2013.

The increase primarily reflects merger, retention and other integration expenses amounting to \$26.9 million following the acquisition of Solid Concepts and Harvest as well as the inclusion of a full quarter of MakerBot’s selling, general and administrative expenses and higher expenses for strategic and marketing initiatives, an increase in amortization of acquired intangible assets of \$2.6 million and a headcount increase to support our growth.

During the three months ended September 30, 2014 we recorded an expense of \$5.6 million, compared to \$1.6 million for the three months ended September 30, 2013, due to the revaluation of obligations in connection with acquisitions. The increase is due to revaluation of the deferred consideration as part of the Solid Concepts transaction which was partially offset by the revaluation of the earn-out payment of 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 September 30,	
	2014	2013
	U.S. \$ in thousands	
Operating loss	\$ (51,887)	\$ (6,116)
Percentage of net sales	-25.5%	-4.9%

Operating loss for the three months ended September 30, 2014 amounted to \$51.9 million compared to an operating loss of \$6.1 million for the three months ended September 30, 2013. The increase in operating loss was primarily related to higher merger, retention and integration expenses, mainly due to the Solid Concepts transaction, impairment charges and additional expenses that were recorded due to the revaluation of obligations in connection with the acquisitions. The increase in operating loss was partially offset by higher gross profit as described above.

## Financial expense, net

Financial expenses, net which comprised mainly foreign currencies effects and interest expense, net, were \$1.4 million for the three months ended September 30, 2014, compared to a financial and other expense, net of \$0.5 million for the three months ended September 30, 2013. The increase is mainly due to changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the Euro), partially offset by revaluation of forward contracts that hedged the corresponding currency exposure.

## 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	
	September 30,	
	2014	2013
Income taxes	\$ (21,919)	\$ 80
As a percent of loss before income taxes	41.1%	-1.2%

Our effective tax rate for the three months ended September 30, 2014 was 41.1% compared to a negative tax rate of 1.2% for the three months ended September 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.

The income of \$1.9 million attributable to the change in fair value of the Company's earn-out obligations in the three month periods ended September 30, 2014, is non-taxable, and therefore had a significant impact on the effective tax rate in this period.

In addition, during the third quarter of 2014, the Company adjusted its estimation of long-term tax rates in Israel. As a result, the Company recorded an approximately \$3.2 million in its income tax expense and an increase in its deferred tax liabilities 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:

	<b>Three Months Ended September 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>% Change</b>
	<b>U.S. \$ in thousands</b>		
Net loss attributable to Stratasys Ltd.	\$ (31,328)	\$ (6,626)	372.8%
Percentage of net sales	-15.4%	-5.3%	
Diluted loss per share	\$ (0.62)	\$ (0.16)	

This increase of the net loss attributable to Stratasys Ltd was due to the factors that were previously discussed, primarily the increase in our selling, general and administrative expenses due to higher merger, retention and integration expenses, which was partially offset by higher gross profit and favorable effective tax rate in the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

The weighted average fully diluted share count for the three months ended September 30, 2014 was 50.5 million, compared to 42.0 million for the three months ended September 30, 2013. The increase is primarily due to the public offering of 5.2 million shares and the issuance of 3.9 million shares in connection with the MakerBot transaction during the third quarter of 2013 which did not have a full effect on the weighted average number of shares in the three months ended September 30, 2013, as well as shares issued during the three months ended September 30, 2014 in connection with the acquisitions of Solid Concepts and Harvest, which increased the weighted average share count by 0.9 million.

Diluted loss per share was \$0.62 for the three months ended September 30, 2014, compared to a diluted loss per share of \$0.16 for the three months ended September 30, 2013. In computing the loss per share for the three months ended September 30, 2014 and 2013, no adjustments were made to take into account any possible dilution to the basic loss per share because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

## Comparison of Nine Months Ended September 30, 2014 to Nine Months Ended September 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 nine months ended September 30, 2014 and 2013. Additional factors affecting the nine months comparison are described below.

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

	Nine Months Ended September 30,			
	2014		2013	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 533,016	100.0%	\$ 329,318	100.0%
Cost of sales	275,807	51.7%	180,947	54.9%
Gross profit	257,209	48.3%	148,371	45.1%
Research and development, net	59,081	11.1%	34,640	10.5%
Selling, general and administrative	256,349	48.1%	137,577	41.8%
Change in fair value of obligations in connection with acquisitions	(1,289)	-0.2%	1,607	0.5%
Operating loss	(56,932)	-10.7%	(25,453)	-7.7%
Financial income (expense), net	(2,383)	-0.4%	200	0.1%
Loss before income taxes	(59,315)	-11.1%	(25,253)	-7.7%
Income taxes	(31,877)	-6.0%	(337)	-0.1%
Net loss attributable to Stratasys Ltd.	(27,414)	-5.1%	(24,962)	-7.6%

## Discussion of Results of Operations

### Net Sales

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

	Nine Months Ended September 30,		
	2014	2013	% Change
	U.S. \$ in thousands		
Products	\$ 443,542	\$ 279,910	58.5%
Services	89,474	49,408	81.1%
	<u>\$ 533,016</u>	<u>\$ 329,318</u>	61.9%

### Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) increased by \$163.6 million for the nine months ended September 30, 2014, or 58.5%, as compared to the nine months ended September 30, 2013.

The increase in products sales was driven by an organic growth of \$95.5 million for the nine months ended September 30, 2014, or 33.9% as compared to the nine months ended September 30, 2013, as well as the inclusion of MakerBot revenues for the full period.

The number of systems shipped increased to 34,629 units as compared to 8,354 units shipped in the nine months ended September 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 only partially reflected in the nine months ended September 30, 2013.

Consumables revenues for the nine months ended September 30, 2014 increased by 34.5% as compared the nine months ended September 30, 2013. The increase was driven by acceleration in customer usage and our growing installed base of systems.

## Services Revenues

Services revenues (including the service bureau platform, maintenance and other service) increased by \$40.0 million for the nine months ended September 30, 2014, or 81.1%, as compared to the nine months ended September 30, 2013. The increase in services revenues was primarily attributable to inclusion of Solid Concepts revenues as well as, organic increase from maintenance contracts and service parts, reflecting our growing installed base of systems.

## Revenues by Region

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

	Nine Months Ended September 30,				
	2014		2013		% Change
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales	
North America	\$ 286,237	53.7%	\$ 177,815	54.0%	61.0%
EMEA	129,389	24.3%	84,869	25.8%	52.5%
Asia Pacific	110,078	20.7%	62,723	19.0%	75.5%
Other	7,312	1.3%	3,911	1.2%	87.0%
	<u>\$ 533,016</u>	<u>100.0%</u>	<u>\$ 329,318</u>	<u>100.0%</u>	<u>61.9%</u>

Revenues in all regions increased for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, due to strong demand for our products, as well as the inclusion of MakerBot revenues for the full period and the inclusion of Solid Concepts revenues.

## Gross Profit

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

	Nine Months Ended September 30,		
	2014	2013	% Change
<b>Gross profit attributable to:</b>	<b>U.S.\$ in thousands</b>		
Products	\$ 223,689	\$ 131,571	70.0%
Services	33,520	16,800	99.5%
	<u>\$ 257,209</u>	<u>\$ 148,371</u>	<u>73.4%</u>

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

	Nine Months Ended September 30,		
	2014	2013	% Change
<b>Gross profit as a percentage of revenues from:</b>			
Products	50.4%	47.0%	7.3%
Services	37.5%	34.1%	9.9%
Total gross profit	<u>48.3%</u>	<u>45.1%</u>	<u>7.1%</u>

Gross profit attributable to products sales increased by \$92.1 million, or 70.0%, to \$223.7 million for the nine months ended September 30, 2014 as compared to \$131.6 million for the nine months ended September 30, 2013. Gross profit from services increased by \$16.7 million, or 99.5%, to \$33.5 million for the nine months ended September 30, 2014 as compared to \$16.8 million for the nine months ended September 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:

	Nine Months Ended September 30,		
	2014	2013	% Change
	U.S.\$ in thousands		
Research and development, net	\$ 59,081	\$ 34,640	70.6%
Selling, general & administrative	256,349	137,577	86.3%
Change in the fair value of obligations in connection with acquisitions	(1,289)	1,607	-180.2%
	<u>\$ 314,141</u>	<u>\$ 173,824</u>	80.7%
Percentage of net sales	58.9%	52.8%	

Research and development expenses, net for the nine months ended September 30, 2014 increased by \$24.4 million, or 70.6%, as compared to the nine months ended September 30, 2013.

Research and development expense, net for the nine months ended September 30, 2014 as a percentage of sales was 11.1%, as compared to 10.5% for the nine months ended September 30, 2013.

Selling, general and administrative expenses for the nine months ended September 30, 2014 amounted to \$256.3 million, compared to \$137.6 million for the nine months ended September 30, 2013.

Selling, general and administrative expenses for the nine months ended September 30, 2014 as percentage of net sales was approximately 48.1%, compared to 41.8% for the nine months ended September 30, 2013.

The increase primarily reflects merger related, retention related and other integration costs following the acquisition of Solid Concepts and Harvest and inclusion of a full quarter 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 \$2.6 million and a headcount increase to support our growth.

During the nine months ended September 30, 2014 we recorded a gain of \$1.3 million, compared to an expense of \$1.6 million for the nine months ended September 30, 2013, due to the revaluation of obligations in connection with acquisitions. The gain was due to the revaluation of the earn-out payment of the MakerBot transaction and was partially offset by the revaluation of the deferred consideration as part of the Solid Concepts 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:

	Nine Months Ended September 30,		
	2014	2013	% Change
	U.S. \$ in thousands		
Operating loss	\$ (56,932)	\$ (25,453)	123.7%
Percentage of net sales	-10.7%	-7.7%	38.2%

Operating loss for the nine months ended September 30, 2014 amounted to \$56.9 million compared to an operating loss of \$25.5 million for the nine months ended September 30, 2013. The increase in operating loss was due to factors that were previously discussed.

## Financial income (expense), net

Financial expense, net which comprised mainly foreign currencies effects and interest expense, net was \$2.4 million for the nine months ended September 30, 2014, compared to a financial income, net of \$0.2 million for the nine months ended September 30, 2013.

## Income Taxes

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

	Nine Months Ended	
	September 30,	
	2014	2013
U.S. \$ in thousands		
Income taxes	\$ (31,877)	\$ (337)
As a percent of loss before income taxes	53.7%	1.3%

Our effective tax rate for the nine months ended September 30, 2014 was 53.7% compared to effective tax rate of 1.3% for the nine months ended September 30, 2013. Our effective tax rate has varied significantly 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 \$8.8 million attributable to the change in fair value of our earn-out obligations in the nine months ended September 30, 2014 is non-taxable, and therefore had a significant impact on the effective tax rate.

In addition, during the third quarter of 2014, the Company adjusted its estimation of long-term tax rates in Israel. As a result, the Company recorded an approximately \$3.2 million in its income tax expense and an increase in its deferred tax liabilities 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:

	Nine Months Ended September 30,		
	2014	2013	% Change
	U.S. \$ in thousands		
Net loss attributable to Stratasys Ltd.	\$ (27,414)	\$ (24,962)	9.8%
Percentage of net sales	-5.1%	-7.6%	
Diluted net loss per share	\$ (0.55)	\$ (0.63)	

This increase in net loss attributable to Stratasys Ltd for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 was due to the factors previously discussed, primarily the increase in our selling, general and administrative expenses due to higher merger related expenses and retention expenses primarily due to Solid Concepts transaction as well as impairment charges related to our Digitizer. This negative effect was partially offset by higher gross profit and favorable effective tax rate in the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013.

The weighted average fully diluted share count for the nine months ended September 30, 2014 was 49.7 million, compared to 39.8 million for the nine months ended September 30, 2013.



## Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which excludes 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 such as, share-based compensation, amortization of intangible assets, and impairment charges that either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the income statement, 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 September 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)	\$ 87,847	\$ 30,996	\$ 118,843	\$ 60,592	\$ 13,542	\$ 74,134
Operating income (loss) (1,2)	(51,887)	\$ 83,688	31,801	(6,116)	30,347	24,231
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(31,328)	\$ 61,419	30,091	(6,626)	26,646	20,020
Diluted net income (loss) per share attributable to Stratasys Ltd. (4)	(0.62)	\$ 1.20	0.58	(0.16)	0.61	0.45
(1) Acquired intangible assets amortization expense		14,864			11,579	
Impairment charges		11,635				
Deferred revenue purchase price adjustments		-			1,107	
Non-cash stock-based compensation expense		1,282			793	
Merger related expense		3,215			63	
		30,996			13,542	
(2) Acquired intangible assets amortization expense		6,474			3,838	
Impairment charges		3,000				
Non-cash stock-based compensation expense		6,315			5,819	
Change in fair value of obligations in connection with acquisitions		5,578			4,801	
Merger and acquisition related expense		31,325			2,347	
		52,692			16,805	
		83,688			30,347	
(3) Tax expense related to adjustments		(22,269)			(3,640)	
Depreciation and amortization expense attributable to non-controlling interest		-			(61)	
		\$ 61,419			\$ 26,646	

(4) Weighted average number of ordinary shares outstanding-				
Diluted	50,490	52,261	41,976	44,289

Nine Months Ended September 30,

	<u>GAAP</u> <u>2014</u>	<u>Non-GAAP</u> <u>Adjustments</u>	<u>2014</u> <u>Non-GAAP</u>	<u>GAAP</u> <u>2013</u>	<u>Non-GAAP</u> <u>Adjustments</u>	<u>2013</u> <u>Non-GAAP</u>
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	\$ 257,209	\$ 60,473	\$ 317,682	\$ 148,371	\$ 46,789	\$ 195,160
Operating income (loss) (1,2)	(56,932)	\$ 140,251	83,319	(25,453)	91,695	66,242
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(27,414)	\$ 106,098	78,684	(24,962)	81,127	56,165
Diluted net income (loss) per share attributable to Stratasys Ltd. (4)	(0.55)	\$ 2.08	1.53	(0.63)	1.96	1.33
(1) Acquired intangible assets amortization expense		42,119			42,121	
Impairment charges		11,635			-	
Deferred revenue purchase price adjustments		235			2,321	
Non-cash stock-based compensation expense		3,228			2,059	
Merger and acquisition related expense		<u>3,256</u>			<u>288</u>	
		60,473			46,789	
(2) Acquired intangible assets amortization expense		17,344			14,758	
Impairment charges		3,000				
Non-cash stock-based compensation expense		18,183			15,403	
Change in fair value of obligations in connection with acquisitions		(1,289)			4,801	
Merger and acquisition related expense		<u>42,540</u>			<u>9,944</u>	
		<u>79,778</u>			<u>44,906</u>	
		<u>140,251</u>			<u>91,695</u>	
(3) Tax expense related to adjustments		(34,153)			(10,442)	
Depreciation and amortization expense attributable to non-controlling interest		-			(126)	
		<u>\$ 106,098</u>			<u>\$ 81,127</u>	
(4) Weighted average number of ordinary shares outstanding- Diluted	49,717		51,573	39,754		42,185

## Liquidity and Capital Resources

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

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>In thousands</b>	
Net income (loss)	\$ (27,438)	\$ (24,916)
Depreciation and amortization	79,155	66,421
Impairment Charges	14,635	
Deferred income taxes	(45,188)	(16,875)
Stock-based compensation	21,411	17,463
Excess tax benefit from stock options	(916)	(1,962)
Change in obligations in connection with acquisitions	(1,289)	1,607
Other non-cash items	5,027	(656)
Change in working capital and other	(46,443)	(24,668)
Net cash provided (used in) by operating and other activities	(1,046)	16,414
Net cash from used in investing activities	(74,063)	(210,325)
Net cash provided by financing activities	45,538	474,908
Effect of exchange rate changes on cash	(1,016)	67
Net change in cash and cash equivalents	(30,587)	281,064
Cash and cash equivalents, beginning of period	414,088	133,826
Cash and cash equivalents, end of period	\$ 383,501	\$ 414,890

Our cash and cash equivalents balance decreased to \$383.5 million at September 30, 2014 from \$414.1 million at December 31, 2013. The decrease in cash and cash equivalents in the nine months ended September 30, 2014 was primarily due to cash used in investing activities in an amount of \$74.1 million which we used to fund our acquisitions and cash used for purchases of property, plant and equipment to support our growing business. During the nine months ended September 30, 2014, cash flows used in operating activities amounted to \$1.0 million and cash flow provided by financing activity amounted to \$45.5 million primarily due to the proceeds from borrowing under our credit facility. The cash and cash equivalent balance as of September 30, 2013 was mainly attributed to the net proceeds from the sale of 5,175,000 of our ordinary shares, partially offset by cash and cash equivalents used in investing activities, which primarily reflected the increase in short-term bank deposits.

### *Cash flows from operating activities*

We used cash in operating activities of \$1.0 million during the nine months ended September 30, 2014. Net loss of \$27.4 million was favorably adjusted due to non-cash charges for depreciation and amortization and stock-based compensation expense offset mainly by the changes in the deferred income taxes and in working capital items. The changes in the deferred income taxes of \$45.2 million and the changes in working capital and other of \$46.4 million unfavorably affected cash from operating activities. The increase in the working capital consisted mainly of an increase in inventories of \$31.7 million and accounts receivable of \$32.8 million, offset by an increase in other current liabilities of \$20.0 million. The change in our working capital is mainly due to strong order flow.

During the nine months ended September 30, 2013, we generated cash from operating activities of \$16.4 million. The net loss of \$24.9 million was favorably adjusted due to non-cash charges in depreciation and amortization, the change in the earn-out obligations and a stock-based compensation expense. Changes in working capital and other using cash from operations included a \$21.6 million increase in accounts receivable due to strong order flow and the Stratasy-Objet merger and an increase in inventory of \$15.6 million in anticipation of strong order flow expected as a result of the Stratasy-Objet merger. Cash flows from operating activities were favorably affected due to a \$6.7 million increase in unearned revenues and a \$5.7 million increase in non-current liabilities.

### ***Cash flows from investing activities***

We used cash of \$74.1 million in our investing activities during the nine months ended September 30, 2014. Cash used to fund our acquisition and to purchase property and equipment, was partially offset by cash provided due to the change in short-term bank deposits.

We used \$141.7 million to fund our acquisitions. We also used non-cash consideration to fund our strategic acquisitions. For further details, 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.

Property, plant and equipment purchases totaled \$43.8 million. Our principal property, plant and equipment purchases were for the enhancement of our manufacturing capabilities of our facilities in Israel and the United States and for our new facility in Germany. We also paid for machinery and other equipment to support our growing service bureau platform, and also purchased of engineering development equipment, building and leasehold improvements and computer systems.

In the nine months ended September 30, 2014, \$116.0 million was provided by the change in short-term bank deposits due to the maturity of those deposits.

We used cash of \$210.3 million in our investing activities during the nine months ended September 30, 2013. Cash used in our investing activities included a \$179.9 million increase in short-term bank deposits and \$20.6 million of property, plant and equipment purchases.

### ***Cash flows from financing activities***

Net cash provided by financing activities in the nine months ended September 30, 2014 was \$45.5 million.

Cash provided by financing activities was mainly attributed to our borrowing of \$50 million under our credit facility during the third quarter.

During the second quarter of 2014, we paid the first earn-out period obligation in connection with MakerBot transaction in cash in the amount of \$10.8 million. Cash used in financing activities, was partially offset by proceeds of \$7.6 million from the exercise of stock options and the related excess tax benefit.

During the nine months ended September 30, 2013, the net proceeds from the offering of 5,175,000 of our ordinary shares, in September 2013, provided cash of \$462.9 million. Proceeds from the exercise of stock options and the related excess tax benefit provided cash of \$12.0 million.

### ***Capital resources and capital expenditures***

Our total current assets amounted to \$795.4 million at September 30, 2014, of which \$458.9 million consisted of cash and cash equivalents and short-term bank deposits. Total current liabilities amounted to \$248.8 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. During the third quarter of 2014 we borrowed \$50 million under the credit facility to support the funding of our growing business. We believe that we were in compliance with the all covenants under the credit agreement as of September 30, 2014.

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 the 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 September 30, 2014, the total value would be \$96.6 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 approximately \$162 million as part of the purchase price and other related expenses, of which \$60 million was paid in cash and \$98 million was paid in our shares; \$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 payments consideration and retention bonus are subject to certain adjustments based on our share price. Based on the Company’s share price as of September 30, 2014 the total undiscounted amount of the deferred payments consideration and retention bonus is approximately \$125 million. Subject to certain requirements for cash payments, the Company retains the discretion to settle any of the amounts payable under the Solid Concepts transaction in its shares, cash or any combination of the two.

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, Harvest and GrabCAD after their acquisition and to successfully 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.

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 the

