

# STRATASYS LTD.

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

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Address	7665 COMMERCE WAY EDEN PRAIRIE, MN 55344
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 6-K**

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

For the month of August 2013

Commission File Number 001-35751

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**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  
Rehovet, Israel 76124**

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(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): \_\_\_\_\_

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THE INFORMATION SET FORTH IN THIS REPORT ON FORM 6-K, INCLUDING THE EXHIBITS ANNEXED HERETO (OTHER THAN EXHIBIT 99.3), IS HEREBY INCORPORATED BY REFERENCE INTO THE REGISTRANT'S REGISTRATION STATEMENT ON FORM S-8 (SEC FILE NO. 333-185240), AND SHALL BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FILED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

## CONTENTS

On August 8, 2013, Stratasys Ltd., or Stratasys, released its financial results for the three and six months ended June 30, 2013.

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

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

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

Attached hereto as Exhibit 99.3 is the press release issued by Stratasys on August 8, 2013 to announce its financial results for the three and six months ended June 30, 2013.

Attached hereto as Exhibit 101 are the Q2 2013 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 report on 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: August 8, 2013

### **STRATASYS LTD.**

By: /s/ Erez Simha

Name: Erez Simha

Title: Chief Financial Officer and  
Chief Operating Officer (IL)

**STRATASYS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS**  
**ENDED JUNE 30, 2013**  
**(UNAUDITED)**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013  
(UNAUDITED)**

<b>Item</b>	<b>Page</b>
<b>Introduction and Use of Certain Terms</b>	<b>2</b>
<b>Consolidated Balance Sheets</b>	<b>3</b>
<b>Consolidated Statements of Operations and Comprehensive Income</b>	<b>4</b>
<b>Consolidated Statements of Cash Flow</b>	<b>5</b>
<b>Notes to Condensed Consolidated Financial Statements</b>	<b>6 to 14</b>

**INTRODUCTION AND USE OF CERTAIN TERMS**

On December 1, 2012, we completed a merger with Stratasys, Inc., a Delaware corporation, which we refer to as our merger, the merger or the Objet merger. Pursuant to the merger, Stratasys, Inc. became our indirect, wholly-owned subsidiary and we changed our name from Objet Ltd. to Stratasys Ltd. While Objet Ltd. was the legal acquirer in the merger, Stratasys, Inc. was treated as the acquiring company in the merger for accounting purposes, and the merger has been accounted for as a reverse acquisition under the acquisition method of accounting for business combinations.

Unless otherwise indicated or the context otherwise requires, references to “Stratasys,” “our company,” “the Company,” “we,” “us,” and “our” refer to Stratasys Ltd. (formerly known as Objet Ltd.), and its consolidated subsidiaries. References to “Objet” generally refer to Objet Ltd. and its consolidated subsidiaries prior to the effective time of the merger on December 1, 2012, and sometimes also are used as references to our current, ongoing products related to the historical Objet that continue following the merger. References to “Stratasys, Inc.” generally refer to Stratasys, Inc., a Delaware corporation, and its consolidated subsidiaries prior to the effective time of the merger, but sometimes (as the context requires) refer to our current, ongoing products related to historical Stratasys, Inc. that continue following the merger. The historical financial information set forth in this quarterly report on Form 6-K, unless otherwise indicated or the context otherwise requires, reflects the consolidated results of operations and financial position of: (i) Stratasys, Inc. prior to the merger; and (ii) Stratasys Ltd. since the merger (on December 1, 2012).

**STRATASYS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**Consolidated Balance Sheets**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<i>in thousands, except per share data</i>	<b>(unaudited)</b>	<b>(audited)</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 148,061	\$ 133,826
Short-term bank deposits	-	20,063
Restricted deposits	834	929
Accounts receivable:		
Trade, net	81,443	64,678
Other	22,055	22,934
Inventories	64,603	67,995
Net investment in sales-type leases, net	5,687	5,134
Prepaid expenses	3,138	2,751
Deferred income taxes	9,834	4,968
Total current assets	<u>335,655</u>	<u>323,278</u>
<b>Non-current assets</b>		
<b>Property, plant and equipment, net</b>	<u>68,256</u>	<u>62,070</u>
<b>Other assets</b>		
Goodwill	822,463	822,475
Other intangible assets, net	484,798	510,372
Net investment in sales-type leases	9,206	7,872
Amounts funded in respect of employees rights upon retirement	2,844	2,628
Other non-current assets	2,928	2,818
Total other assets	<u>1,322,239</u>	<u>1,346,165</u>
<b>Total assets</b>	<u>\$ 1,726,150</u>	<u>\$ 1,731,513</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 24,077	\$ 35,235
Other current liabilities	41,116	41,124
Unearned revenues	25,140	18,068
Total current liabilities	<u>90,333</u>	<u>94,427</u>
<b>Non-current liabilities</b>		
Employee rights upon retirement	4,437	4,188
Deferred tax liabilities	51,194	54,693
Unearned revenues - long-term	3,155	3,181
Other non-current liabilities	6,077	2,868
<b>Total liabilities</b>	<u>155,196</u>	<u>159,357</u>
<b>Commitments and contingencies, see note 10</b>		
<b>Equity</b>		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 shares; 39,023 and 38,372 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	102	101
Additional paid-in capital	1,477,121	1,459,294
Retained earnings	94,167	112,503
Accumulated other comprehensive loss	(593)	(238)

Equity attributable to Stratasys Ltd.	1,570,797	1,571,660
Non-controlling interest	157	496
Total equity	1,570,954	1,572,156
<b>Total liabilities and equity</b>	<b>\$ 1,726,150</b>	<b>\$ 1,731,513</b>

*See accompanying notes to consolidated financial statements.*



**STRATASYS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**Consolidated Statements of Operations and Comprehensive Income (Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<i>in thousands, except per share data</i>				
<b>Net sales</b>				
Products	\$ 90,213	\$ 41,444	\$ 172,023	\$ 78,990
Services	16,272	7,962	31,669	15,380
	<u>106,485</u>	<u>49,406</u>	<u>203,692</u>	<u>94,370</u>
<b>Cost of sales</b>				
Products	45,731	18,651	94,774	36,462
Services	10,349	4,595	21,139	8,794
	<u>56,080</u>	<u>23,246</u>	<u>115,913</u>	<u>45,256</u>
<b>Gross profit</b>	<u>50,405</u>	<u>26,160</u>	<u>87,779</u>	<u>49,114</u>
<b>Operating expenses</b>				
Research and development, net	10,337	4,157	21,126	8,509
Selling, general and administrative	42,665	16,210	85,990	27,585
	<u>53,002</u>	<u>20,367</u>	<u>107,116</u>	<u>36,094</u>
<b>Operating income (loss)</b>	<u>(2,597)</u>	<u>5,793</u>	<u>(19,337)</u>	<u>13,020</u>
<b>Other income</b>	<u>138</u>	<u>59</u>	<u>652</u>	<u>355</u>
<b>Income (loss) before income taxes</b>	<u>(2,459)</u>	<u>5,852</u>	<u>(18,685)</u>	<u>13,375</u>
Income taxes (benefit)	326	2,834	(417)	5,835
<b>Net income (loss)</b>	<u>\$ (2,785)</u>	<u>\$ 3,018</u>	<u>\$ (18,268)</u>	<u>\$ 7,540</u>
Net income attributable to non-controlling interest	\$ 15	\$ -	\$ 68	\$ -
<b>Net income (loss) attributable to Stratasys Ltd.</b>	<u>\$ (2,800)</u>	<u>\$ 3,018</u>	<u>\$ (18,336)</u>	<u>\$ 7,540</u>
<b>Net income (loss) per ordinary share attributable to Stratasys Ltd.</b>				
Basic	\$ (0.07)	\$ 0.14	\$ (0.47)	\$ 0.35
Diluted	(0.07)	0.14	(0.47)	0.35
<b>Weighted average ordinary shares outstanding</b>				
Basic	38,781	21,312	38,637	21,289
Diluted	38,781	21,834	38,637	21,800
<b>Comprehensive Income</b>				
Net income (loss)	\$ (2,785)	\$ 3,018	\$ (18,268)	\$ 7,540
Other comprehensive income (loss):				
Foreign currency translation adjustment	13	(135)	(355)	(23)
<b>Comprehensive income (loss)</b>	<u>(2,772)</u>	<u>2,883</u>	<u>(18,623)</u>	<u>7,517</u>
Less: comprehensive loss attributable to non-controlling interest	(454)	-	(339)	-
<b>Comprehensive income (loss) attributable to Stratasys Ltd.</b>	<u>\$ (2,318)</u>	<u>\$ 2,883</u>	<u>\$ (18,284)</u>	<u>\$ 7,517</u>

See accompanying notes to consolidated financial statements.

**STRATASYS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**Consolidated Statements of Cash Flows (Unaudited)**

*in thousands*

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (18,268)	\$ 7,540
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	6,569	3,262
Amortization	40,406	2,257
Deferred income taxes	(9,393)	-
Stock-based compensation	10,851	1,113
Other non-cash items	(1,108)	(578)
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of the impact of acquisition:		
Accounts receivable, net	(18,219)	(7,254)
Inventories	(9,706)	(1,808)
Net investment in sales-type leases	(1,887)	(1,223)
Accounts payable and other current liabilities	(10,112)	7,577
Non-current liabilities	3,442	-
Unearned revenues	5,816	88
Other assets and liabilities	(591)	965
<b>Net cash provided by (used in) operating activities</b>	<b>(2,200)</b>	<b>11,939</b>
<b>Cash flows from investing activities</b>		
Decrease in short-term bank deposits	20,063	-
Acquisition of property and equipment	(9,909)	(6,306)
Acquisition of intangible and other assets	(611)	(1,234)
Other investing activities	38	-
Proceeds from the maturity of investments	-	4,012
Proceeds from the sale of investments	-	4,803
Purchase of investments	-	(8,407)
<b>Net cash provided by (used in) investing activities</b>	<b>9,581</b>	<b>(7,132)</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options	5,988	1,506
Excess tax benefit from stock options	986	579
<b>Net cash provided by financing activities</b>	<b>6,974</b>	<b>2,085</b>
<b>Effect of exchange rate changes on cash</b>	<b>(120)</b>	<b>(16)</b>
<b>Net change in cash and cash equivalents</b>	<b>14,235</b>	<b>6,876</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>133,826</b>	<b>20,092</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 148,061</b>	<b>\$ 26,968</b>
<b>Supplemental disclosures of cash flow information:</b>		
Transfer of fixed assets to inventory	3,068	2,333

*See accompanying notes to consolidated financial statements.*



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

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

The condensed consolidated interim financial statements include the accounts of Stratasys Ltd. and its wholly and majority owned subsidiaries (collectively, the “Company”). All intercompany accounts and transactions, including profits from intercompany sales not yet realized outside the Company, have been eliminated in consolidation. The Company owns 51% of Objet Japan Co. Ltd. The minority owner’s non-controlling interest is included as a component of equity and a reduction to net income and to comprehensive income attributable to Stratasys Ltd. The Company has one reportable segment.

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. The results of operations for the six months ended June 30, 2013 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, 2012, filed as part of the Company’s Annual Report on Form 20-F for such year.

The Company is the result of the merger of Stratasys, Inc. and Objet Ltd. (“Objet”). On December 1, 2012 (the “merger date”), the two companies completed an all-stock merger (the “Objet merger”), pursuant to which Stratasys, Inc. became an indirect, wholly-owned subsidiary of Objet. In connection with the Objet merger, Objet changed its name to Stratasys Ltd.

The Objet merger was structured as a merger of Stratasys, Inc. with and into an indirect wholly owned subsidiary of Objet. Stratasys, Inc. stockholders received one ordinary share of Stratasys Ltd. for each share of Stratasys, Inc. common stock they owned. Upon closing of the transaction, the former Stratasys, Inc. stockholders owned approximately 55 percent and the Objet shareholders retained approximately 45 percent of the ordinary shares of the company on a fully diluted basis using the treasury stock method. Accordingly, while Objet was the legal acquirer, Stratasys, Inc. is treated as the acquiring company in the merger for accounting purposes and the merger has been accounted for as a reverse acquisition under the acquisition method of accounting for business combinations. As a result, the financial statements of the Company prior to the merger date are the separate historical financial statements of only Stratasys, Inc., whereas the financial statements of the Company after the merger date reflect the results of the operations of Stratasys, Inc. and Objet on a combined basis. Accordingly, the accompanying statement of operations and comprehensive income and of cash flows for the six months ended June 30, 2013 are on a combined basis and for the six months ended June 30, 2012 are on a separate Stratasys, Inc. basis only.

**Note 2. Business Combinations**

*Objet Merger*

The Objet merger was accounted for as a reverse acquisition and accordingly, the total purchase price of \$1,341 million was calculated as if Stratasys, Inc. had issued its shares to Objet’s shareholders and converted options to purchase Objet’s ordinary shares to options to purchase Stratasys, Inc. common stock (which became exercisable instead for Stratasys Ltd. ordinary shares upon consummation of the merger).

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

Under the acquisition method of accounting, the total purchase price was allocated to the net tangible and intangible assets of Objet acquired in the merger, based on their fair values at the merger date. The estimated fair values are preliminary and based on the information that was available as of the merger date. The Company believes that the information provides a reasonable basis for estimating the fair values, but the Company is waiting for additional information necessary to finalize these amounts, particularly with respect to the estimated fair value of intangible assets and property, plant and equipment and deferred taxes related thereto. Thus the preliminary measurements of fair value reflected are subject to changes and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the merger date. There were no changes during the six months ended June 30, 2013 to the preliminary measurements of fair value. The preliminary 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	\$ 41,524
Restricted cash	845
Short-term bank deposit	30,062
Accounts receivable - Trade	23,633
Accounts receivable - Other	12,477
Prepaid expenses	1,011
Inventories	40,364
Deferred income taxes	1,755
Property, plant and equipment	15,475
Goodwill	797,063
Intangible assets	490,176
Other non-current assets	2,539
<b>Total assets acquired</b>	<b>1,456,924</b>
Accounts payable & other liabilities	49,876
Unearned revenue	8,674
Deferred tax liabilities	51,003
Other non-current liabilities	6,474
<b>Total liabilities assumed</b>	<b>116,027</b>
<b>Total purchase price</b>	<b>\$ 1,340,897</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):

	<b>Amount</b>	<b>Weighted Average Life - Years</b>
Developed technology	\$ 374,126	9.6
Customer relationships	72,679	10
Trade name	15,291	9
In-process R&D	28,080	Indefinite
<b>Total intangible assets</b>	<b>\$ 490,176</b>	

In addition, the allocation of the purchase price resulted in the recognition of backlog, which was valued at \$6.3 million. Backlog was included in accounts receivable - other and was fully amortized to selling, general and administrative through the three months ended March 31, 2013 based on the pattern in which the economic benefits of backlog were estimated to be realized.

The Company incurred \$3.5 million and \$4.5 million of acquisition-related costs related to the Objet merger that were expensed during the three and six months ended June 30, 2012, respectively. These costs are included in selling, general and administrative costs in the Company's consolidated statements of operations.



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

*Pending Merger with MakerBot*

On June 19, 2013, the Company and privately held Cooperation Technology Corporation (“MakerBot”), announced the signing of a definitive merger agreement (“MakerBot merger agreement”) whereby MakerBot agreed to merge with a subsidiary of the Company in a stock-for-stock transaction.

Under the terms of the MakerBot merger agreement, Stratasys will initially issue approximately 4.76 million shares in exchange for 100% of MakerBot’s outstanding capital stock. MakerBot stakeholders also qualify for performance-based earn-outs that provide for the issue of up to an additional 2.38 million shares through the end of 2014. Those payments, if earned, will be made in Stratasys shares or cash (in an amount reflecting the value of the Stratasys shares that would have otherwise been issued at the relevant earn out determination date), or a combination thereof, at Stratasys’ discretion. The MakerBot merger is subject to customary closing conditions, and is expected to close in the third quarter of 2013. The Company incurred \$3.8 million of acquisition-related costs during the three months ended June 30, 2013 related to the pending MakerBot merger.

**Note 3. Inventories**

Inventories consisted of the following at June 30, 2013 and December 31, 2012, respectively (in thousands):

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Finished goods	\$ 31,757	\$ 37,823
Work-in-process	2,592	3,809
Raw materials	30,254	26,363
	<u>\$ 64,603</u>	<u>\$ 67,995</u>

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

*Goodwill*

Changes in the carrying amount of the Company’s goodwill for the six months ended June 30, 2013, are as follows (in thousands):

	<b>Carrying Amount</b>
Balance at December 31, 2012	\$ 822,475
Effect of currency translation	(12)
Balance at June 30, 2013	<u>\$ 822,463</u>

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

*Other Intangible Assets*

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

	June 30, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technology	\$ 385,760	\$ 29,292	\$ 385,735	\$ 9,058
Capitalized software development costs	16,163	13,431	15,831	12,996
Patents	13,808	5,732	13,533	4,952
Trademarks and trade names	16,870	1,478	16,877	592
Customer relationships	77,779	4,977	77,779	1,172
Non-compete agreement	350	253	350	194
In-process research and development	29,231	-	29,231	-
	539,961	\$ 55,163	539,336	\$ 28,964
Accumulated amortization	55,163		28,964	
Net book value of amortizable intangible assets	\$ 484,798		\$ 510,372	

Changes in the gross carrying amount of our other intangible assets for the six months ended June 30, 2013, are as follows (in thousands):

	Gross Carrying Amount
Balance at December 31, 2012	\$ 539,336
Patents, trademarks and capitalized software	625
Balance at June 30, 2013	\$ 539,961

Amortization expense for the three month periods ended June 30, 2013 and 2012 was \$13.1 million and \$1.1 million, respectively. Amortization expense for the six month periods ended June 30, 2013 and 2012 was \$26.2 million and \$2.3 million, respectively.

Estimated amortization expense, for all intangible assets, for the five years subsequent to December 31, 2012 is as follows (in thousands):

Year ending December 31,	
2013	\$ 52,468
2014	54,022
2015	54,166
2016	54,023
2017	\$ 53,551



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

**Note 5. Earnings (Loss) Per Share**

The Company complies with ASC 260, *Earnings Per Share*, which requires dual presentation of basic and diluted income (loss) per ordinary share attributable to Stratasy Ltd. for all periods presented. Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding for the reporting periods. Diluted net income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares or resulted in the issuance of shares that then share in the income (loss) of the Company. The difference between the number of shares used to compute basic net income (loss) per share and diluted net income (loss) per share relates to additional shares, if diluted, that would be issued upon the assumed exercise of stock options and warrants, net of the shares that would hypothetically be repurchased using the proceeds received from the original exercise.

The additional ordinary shares amounted to 521,847 and 510,627 for the three and six months ended June 30, 2012, respectively. There were no options excluded from the dilution calculation for the three and six months ended June 30, 2012, since the market price of the Company's shares exceeded the exercise price of all outstanding options. As a result of the net loss in the three and six months ended June 30, 2013, the outstanding stock options were considered antidilutive and, therefore, were excluded from diluted loss per share for this period.

**Note 6. Income Taxes**

The Company's tax expense was 13.3% on the loss before income taxes for the three months ended June 30, 2013 and the tax benefit was 2.2% on the loss before income taxes for the six months ended June 30, 2013. The effective tax rate for the three and six months ended June 30, 2012 was 48.4% and 43.6%, respectively, on the income before income taxes in those periods. The income tax rate in Israel is significantly lower than the income tax rate in the U.S. The Company's effective tax rate has varied significantly since the merger due to the lower tax rate in Israel, and changes in mix of income (loss) between the U.S. and Israel, as well as the impact of the lower Israel rates on tax benefit as a result of the realization of the deferred tax liability associated with the amortization of the intangible assets. Income tax expense increased in the three months ended June 30, 2013 due to a lower tax benefit as a result of lower realization of the deferred tax liability associated with the amortization of the intangible assets and the reinstatement of 2012 federal research credit on January 2, 2013, of which a credit of approximately \$350,000 was recorded in the first quarter of 2013.

The total research credit for the three and six months ended June 30, 2013 was \$120,000 and \$580,000, respectively. In addition, during the second quarter of 2013, the Company adjusted its long-term tax rates due to obtaining an approval from the Israeli Tax Authorities under the Approved Enterprise and Privileged Enterprise programs. As a result, the Company recorded a reduction of approximately \$1.3 million in its income tax expense and in its deferred tax liabilities associated with the amortization of the intangible assets.

**Note 7. Fair Value Measurements**

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of 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 market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available under the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

At June 30, 2013, the Company had foreign exchange forward contracts in effect for the conversion of €2.8 million into \$30.0 million and \$22.6 million into NIS 88.4 million. These contracts are not designated for hedge accounting. The fair value of these contracts at June 30, 2013 of \$1.9 million was included in accounts receivable-other. The fair value is based on level 2 inputs. During the second quarter of 2013, the Company entered into \$30.0 million and \$4 million foreign exchange forward contracts against the Euro and the NIS, respectively. The Company has no other significant measurements of assets or liabilities at fair value on a recurring or nonrecurring basis subsequent to their initial recognition.

**Note 8. Collaborative Arrangements**

The Company has agreements with two manufacturing companies to jointly advance certain of its proprietary technology with each of those two companies. The agreements entitle the Company to receive reimbursement payments of costs actually incurred under joint development projects. During the three months ended June 30, 2013 and 2012, approximately \$1.0 million and \$166,000, respectively, of research and development expenses were offset by payments that were received from these companies. During the six months ended June 30, 2013 and 2012, approximately \$2.1 million and \$317,000, respectively, of research and development expenses were offset by payments that were received from these companies.

**Note 9. Stock Options**

Stock-based compensation expense was allocated as follows for the periods ended June 30 (in thousands):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Cost of sales	\$ 632	\$ -	\$ 1,266	\$ -
Research and development, net	846	-	1,746	-
Selling, general and administrative	3,881	632	7,838	1,113
Total stock-based compensation expenses	<u>\$ 5,359</u>	<u>\$ 632</u>	<u>\$ 10,850</u>	<u>\$ 1,113</u>

There were 228,761 options granted in the three and six months ended June 30, 2013. There were 338,750 options granted in the three and six months ended June 30, 2012. During the three months ended June 30, 2013 and 2012 the Company issued 354,859 and 46,745 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$2.4 million and \$692,000 for the three months ended June 30, 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012 the Company issued 647,667 and 92,140 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$6.0 million and \$1.5 million for the six months ended June 30, 2013 and 2012, respectively.

**Note 10. Litigation**

*Claims and Proceedings*

1) On June 29, 2012, a purported class action complaint was filed in the District Court, Fourth Judicial District, Hennepin County, Minnesota (the "Minnesota Court"), naming Stratasys, Inc., the members of its board of directors, and Objet's two indirect, wholly-owned subsidiaries party to the merger agreement (Seurat Holdings Inc., a Delaware corporation and an indirect wholly-owned subsidiary of Objet, or Holdco, and Oaktree Merger Inc., a Delaware corporation, or Merger Sub) as defendants. On July 2, 2012, another purported class action complaint was filed in the Court of Chancery of the State of Delaware (the "Delaware Court"), naming the same persons as well as Objet as defendants. A third purported class action was filed on July 17, 2012, also in the Minnesota Court naming the same parties (except for Objet) as defendants. The complaints generally allege that, in connection with approving the merger, the Stratasys, Inc. directors breached their fiduciary duties owed to Stratasys, Inc. stockholders and that Stratasys, Inc., Objet, Holdco and Merger Sub knowingly aided and abetted the Stratasys, Inc. directors' breaches of their fiduciary duties. The complaints sought, among other things, certification of the case as a class action, an injunction against the consummation of the transaction, a judgment against the defendants for damages, and an award of fees, expenses and costs to plaintiffs and their attorneys.

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

While the Company and the other defendants believe that each of the aforementioned lawsuits is without merit and that the Company has valid defenses to all claims, in an effort to minimize cost and expense of any litigation relating to such lawsuits, on September 6, 2012, the Company and other defendants entered into a memorandum of understanding (“MOU”) with the parties to the actions pending in the Chancery Court and the Minnesota Court, pursuant to which the Company and such parties agreed in principle, and subject to certain conditions, to settle those stockholder lawsuits. Subject to approval of the appropriate court and further definitive documentation, the MOU establishes a framework to resolve the allegations against the Company and other defendants in connection with the merger agreement and contemplates a release and settlement by the plaintiffs of all claims against the Company and other defendants and their affiliates and agents in connection with the Merger Agreement. In exchange for such release and settlement, pursuant to the terms of the MOU, the parties agreed, after arm’s-length negotiations, that Stratasys, Inc. would file a Current Report on Form 8-K amending and supplementing the applicable disclosure in the joint proxy statement/prospectus, dated August 8, 2012, which had been sent to Stratasys, Inc. stockholders.

The plaintiffs have completed confirmatory discovery with respect to the disclosures made in the proxy statement/prospectus. The parties are presently engaged in negotiating a final settlement agreement, which will be submitted to the Delaware Court for approval. However, if the conditions set forth in the MOU are not satisfied or the Delaware Court fails to approve the settlement, the litigation will proceed, and the Company intends to continue to vigorously defend these actions.

The Company recorded a provision in 2012 for probable losses, which are reasonably estimable, arising from this claim, as estimated by management. Management believes that there is no material exposure to loss in excess of the amount accrued.

2) In October 2007, a former supplier of Objet brought an action against Objet and the former directors of its European subsidiary (one of whom, Ilan Levin, is a current director of the Company) in a Brussels commercial court, claiming damages of €566,000 (\$738,000), plus interest and related legal and litigation costs. On April 26, 2010, the court held Objet and its subsidiary’s former directors jointly and severally liable for the full amount claimed. Objet along with its subsidiary’s former directors filed an appeal of the judgment in May 2010, with respect to which the final judgment is expected to be rendered in 2013. In keeping with required procedures related to the litigation, in July 2011, the Company deposited the full amount of the original judgment in favor of the former supplier, plus interest and litigation costs (€690,000, or \$900,000, in total) into a blocked, state-owned account in the Company’s name, to be held pending the outcome of the appeal.

Objet recorded a provision in 2007 and 2008 for probable losses, which are reasonably estimable, arising from this claim, as estimated by management. Management believes that there is no material exposure to loss in excess of the amount accrued.

3) In December 2008, an employee of Objet, whose employment with Objet was subsequently terminated, filed a claim against Objet demanding that, based on an alleged undertaking Objet had made, Objet issue to him an option that would allow him to maintain an equity interest of 1.45% in Objet, as well as reimburse salary reductions he had suffered in an aggregate sum of NIS 552,000 (\$152,000). In July 2009, Objet filed its statement of defense, rejecting the claims raised by the former employee. Together with the former employee, Objet 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 (\$121,000) on account of alleged wrongful termination by Objet, and consequently, Objet filed an amended statement of defense on June 2011. The former employee later amended his statement of claim for the second time, so that it will include a claim that Objet never granted him options.

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

The action is currently ongoing and is being litigated in an Israeli labor court. Evidentiary hearings took place on February 7, 2013 and April 4, 2013. The former employee submitted his summation briefs on June 5, 2013 and the Company is to submit its summation briefs by September 29, 2013. The former employee may submit answer summations by October 6, 2013.

Objet recorded a provision in 2008 for probable losses, which are reasonably estimable, arising from this claim, as estimated by management.

It is reasonably possible that the loss arising from this claim will be greater than the amount accrued, up to the entire amount claimed.

4) On April 15, 2012, the Company and a former distributor signed a mediation / arbitration agreement in order to either amicably resolve or arbitrate, in Israel, a dispute related to a distributorship agreement with the former distributor that the Company had terminated for cause. Without waiving any of its rights, and for the purpose of mediation, the former distributor has claimed compensation of \$1.5 million for, among other things, its alleged investment in building a market for the Company's products, while the Company has claimed approximately \$0.5 million (under a similar reservation of rights), for amounts owed to it by the distributor under the distributorship agreement, damages to the Company's reputation and lost profits. The first mediation meeting under the mediation / arbitration agreement was held on July 18, 2012, and it has been followed by additional meetings that the mediator has held with each of the parties separately. As of the date of these financial statements the mediation has been discontinued. Neither party has so far initiated arbitration proceedings.

Management does not believe that the allegations made by the former distributor will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

5) On March 4, 2013, the Company was notified of two lawsuits purportedly filed in an Israeli district court against the Company by four current or former minority shareholders and former directors of Objet. The lawsuits purportedly demand that the Company amend its capitalization table such that certain shares previously issued to Objet shareholders named as defendants would be recognized as being owned by the plaintiffs with a consequent reduction of the share ownership of the named defendants and issuance of new shares to the plaintiffs. 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 2003 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 Objet 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 and named defendants have filed motions with the court, seeking to strike the lawsuits on certain grounds and requesting that the court order the plaintiffs to pay court fees according to the actual value of the remedies sought, instead of limited fees for declaratory remedies. The plaintiffs have filed their responses, and the Company and named defendants have filed their answer. On July 1, 2013, a pre-trial hearing was held, in which the court decided that it will first rule on the motion regarding court fees and only later will proceed, if necessary, to rule on the other motions.

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 our operations or financial condition, and the Company intends to vigorously defend these lawsuits.

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

The Company is a party to various other legal proceedings, in the normal course of its business. The Company accrues for a loss contingency when it determines that it probable, after consultation with management, that a liability has been incurred and the amount of such loss can be reasonably estimated. At this time, the Company believes that the outcome of these legal proceedings, either individually or in the aggregate, 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 in this 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 “Risk Factors” in Item 3.D of our Annual Report on Form 20-F for the year ended December 31, 2012.*

**Overview of Business and Trend Information**

We are a leading global provider of additive manufacturing, or 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 seven brands. Our suite of AM systems includes affordable desktop 3D printers for idea and design development, various systems for rapid prototyping, and production systems for direct digital manufacturing, or DDM. We also develop, manufacture and sell materials for use with our systems and provide various services to our customers. We believe that the range of more than 130 3D printing consumable materials that we offer is the widest in the industry. We conduct our business globally and our main operational facilities are located in Brazil, Germany, Hong Kong, Israel, Japan and the United States. We have more than 1,200 employees and hold more than 500 granted or pending additive manufacturing patents globally.

We are the product of the 2012 merger of two leading additive manufacturing companies, Stratasys, Inc. and Objet Ltd., which we refer to as the merger. Pursuant to the merger, which closed on December 1, 2012, Stratasys, Inc. became an indirect, wholly-owned subsidiary of Objet Ltd., and Objet Ltd. changed its name to Stratasys Ltd. Immediately after giving effect to the issuance of our ordinary shares to the former stockholders of Stratasys, Inc. in the merger, approximately 55% of our ordinary shares were held by the former stockholders of Stratasys, Inc. and the remaining 45% of our ordinary shares, on a fully diluted basis (using the treasury stock method), were held by persons and entities who acquired our ordinary shares prior to the merger.

Accordingly, Stratasys, Inc. is treated as the acquiring company in the merger for accounting purposes, and the merger was accounted for as a reverse acquisition under the acquisition method of accounting for business combinations. As a result, the consolidated financial statements of Stratasys, Inc. became our consolidated financial statements. The consolidated financial statements included in this report on Form 6-K include the operations of Stratasys Ltd. (formerly Objet Ltd.) for the three and six months ended June 30, 2013, but not for the three and six months ended June 30, 2012 because the merger was consummated on December 1, 2012. Therefore, unless otherwise indicated or as the context otherwise requires, the historical financial information included in this quarterly report on Form 6-K for periods preceding the merger is that of Stratasys, Inc. For information regarding the historical results of the operations and financial condition of Objet Ltd., please refer to the separate Registration Statement on Form F-4 (Commission File No. 333-182025) that we filed with the Securities and Exchange Commission, which includes historical financial information for Objet Ltd., including information for 2011, the last full fiscal year of Objet Ltd. as a stand-alone company.

We expect that the adoption of 3D printing will continue to increase over the next several years, both in terms of Idea and Design applications, on the one hand, and DDM applications, on the other hand. 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 and ease of use of entry-level systems.

We expect to broaden our installed base through increased adoption of our Idea series of products, featuring our recently introduced easy-to-use Mojo family of lower capacity entry-level professional systems, which are offered at lower price points than our other product families. Our Idea series 3D printers are expected to penetrate a broad addressable market, targeting small design teams within large organizations, small and medium-sized businesses and individual designers. Our scalable technology allows us to provide the same high resolution and accuracy of our high-end printers, but with a smaller feature set. We expect to incorporate certain additional features of our Design series of printers into the Idea series over time. We believe this will further accelerate market adoption of our products.

We believe that the proliferation of 3D content, advancements in AM 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 AM 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. We also intend to encourage existing and potential customers to identify new applications in part by increasing awareness of the features of our technology and product offerings.

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

On June 19, 2013, we announced the signing of a definitive merger agreement to purchase privately-held Cooperation Technology Corporation, (the direct parent company of MakerBot Industries, LLC, its wholly-owned subsidiary), which we refer to as MakerBot, the leader in desktop 3D printing, under which we will acquire MakerBot in a stock-for-stock transaction. MakerBot, founded in 2009, helped develop the desktop 3D printing market and has built the largest installed base of 3D printers in the category by making 3D printers highly accessible.

Under the terms of the MakerBot merger agreement, Stratasys will initially issue approximately 4.76 million shares in exchange for 100% of MakerBot's outstanding capital stock. MakerBot stakeholders also qualify for performance-based earn-outs that provide for the issue of up to an additional 2.38 million shares through the end of 2014. Those payments, if earned, will be made in Stratasys shares or cash (in an amount reflecting the value of the Stratasys shares that would have otherwise been issued at the relevant earn out determination date), or a combination thereof, at Stratasys' discretion. We will reassess the estimated liability for these earn-outs each quarter and the change in our estimate will be recorded in our operating results. This accounting for the earn-outs can result in material volatility in our operating results in each quarter. The MakerBot merger is subject to customary closing conditions, and is expected to close in the third quarter of 2013.

We may make other investments in strategic acquisitions, fixed assets, 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.

Our business, including our ability to implement our strategy for 2013, is subject to numerous uncertainties, many of which are described in "Forward-looking Statements and Factors that May Affect Future Results of Operations", below, as well in "Risk Factors" in Item 3.D of our Annual Report on Form 20-F for 2012.

## Summary of Financial Results

For the three months ended June 30, 2013, we recorded a net loss attributable to Stratasys Ltd. of \$2.8 million, or \$0.07 per diluted share, as compared to net income of \$3.0 million, or \$0.14 per diluted share, for the three months ended June 30, 2012. Net loss during the three months ended June 30, 2013 resulted primarily from amortization of intangible assets that resulted from the merger. On a non-GAAP basis for the three months ended June 30, 2013 and on a pro-forma combined (as if the merger occurred on January 1, 2012) non-GAAP basis (as defined below in "Supplemental Operating Results on a Non-GAAP Basis") for the three months ended June 30, 2012, net income attributable to Stratasys Ltd. was \$18.6 million and \$14.1 million, respectively, representing an increase of 31.9% in 2013 over the corresponding period in 2012.

Our revenues in the three months ended June 30, 2013 were \$106.5 million as compared to reported revenues of \$49.4 million in the three months ended June 30, 2012, representing an increase of 115.6%. Revenues of \$106.5 million for the three months ended June 30, 2013 represent an increase of 20.1% as compared to revenues of \$88.7 million for the three months ended June 30, 2012 on a pro forma combined basis that assumes the merger occurred on January 1, 2012.

For the six months ended June 30, 2013, we recorded a net loss attributable to Stratasys Ltd. of \$18.3 million, or \$0.47 per diluted share, as compared to net income of \$7.5 million, or \$0.35 per diluted share, for the six months ended June 30, 2012. Net loss during the six months ended June 30, 2013 resulted primarily from amortization of intangible assets that resulted from the merger. On a non-GAAP basis for the six months ended June 30, 2013 and on a pro-forma combined (as if the merger occurred on January 1, 2012) non-GAAP basis for the six months ended June 30, 2012, net income attributable to Stratasys Ltd. was \$36.1 million and \$26.7 million, respectively, representing an increase of 35.2% in 2013 over the corresponding period in 2012.

Our revenues in the six months ended June 30, 2013 were \$203.7 million as compared to reported revenues of \$94.4 million in the six months ended June 30, 2012, representing an increase of 115.8%. Revenues of \$203.7 million for the six months ended June 30, 2013 represent an increase of 18.6% as compared to revenues of \$171.8 million for the six months ended June 30, 2012 on a pro forma combined basis that assumes the merger occurred on January 1, 2012.

As of June 30, 2013, our cash, cash equivalents and short-term bank deposits were approximately \$148.1 million, down from \$153.9 million at December 31, 2012. We used cash from operations of approximately \$2.2 million during the six months ended June 30, 2013 primarily driven by payment of other current liabilities outstanding at year-end relating primarily to non-recurring merger costs and we used cash to fund our accounts receivable reflecting the growth in our business and the timing of our sales. In addition, we used cash of \$9.9 million for the acquisition of property and equipment and received cash proceeds of \$6.0M from the exercise of stock options.

## Results of Operations

Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United State of America, or GAAP. In the opinion of our management, all adjustments considered necessary for a fair presentation of the unaudited interim consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual results (on a GAAP basis) for the three and six months ended June 30, 2013 with the corresponding periods in 2012. We are also providing within this section a supplemental discussion that compares the GAAP results for the three and six months ended June 30, 2013 to the results for the three and six months ended June 30, 2012 on a pro forma combined basis as if the merger had closed on January 1, 2012. Since the merger actually closed on December 1, 2012, the GAAP results for the three and six months ended June 30, 2013 include the combined operations of Stratasys, Inc. and Objet Ltd., but the GAAP results for the three and six months ended June 30, 2012 reflect only operations of Stratasys, Inc. Therefore, we believe the pro forma combined information for the three and six months ended June 30, 2012 provides useful supplemental information.



The pro forma combined financial information has been prepared in a manner consistent with SEC Regulation S-X, Article 11. The pro forma combined financial information is presented for illustrative purposes only and is not necessarily indicative of the combined operating results or financial position that would have occurred if the merger had been consummated on the date and in accordance with the assumptions described herein, nor is it necessarily indicative of future results of operations or financial position of the combined company.

The following table sets forth for the three and six months ended June 30, 2012, (a) unaudited historical GAAP combined condensed statement of operations information, which combine the historical GAAP consolidated statements of operations of Stratasys, Inc. and Objet Ltd., and (b) unaudited pro forma condensed combined statements of operations information, which adjust the combined historical GAAP consolidated statements of operations of Stratasys, Inc. and Objet, giving effect to the merger as if it had been consummated on January 1, 2012 in accordance with SEC Regulation S-X, Article 11.

This information has been derived from and should be read in conjunction with the audited consolidated financial statements of Stratasys Ltd. included in the Annual Report on Form 20-F for the year ended December 31, 2012.

(in thousands)

	Three months ended June 30, 2012			Six months ended June 30, 2012		
	GAAP		Pro Forma	GAAP		Pro Forma
	Combined	Adjustments	Combined	Combined	Adjustments	Combined
Net sales	\$ 88,733	\$ -	\$ 88,733	\$ 171,772	\$ -	\$ 171,772
Cost of sales (a)(b)	38,109	10,406	48,515	74,489	20,838	95,327
Gross profit	50,624	(10,406)	40,218	97,283	(20,838)	76,445
Research and development (b)	7,983	850	8,833	16,184	1,721	17,905
Selling, general and administrative (a)(b)(c)	32,708	3,928	36,636	59,798	9,950	69,748
Operating income (loss)	9,933	(15,184)	(5,251)	21,301	(32,509)	(11,208)
Other income	714	-	714	907	-	907
Income (loss) before taxes	10,647	(15,184)	(4,537)	22,208	(32,509)	(10,301)
Income taxes (d)	3,429	(1,042)	2,387	7,075	(2,078)	4,997
Net income (loss) attributable to Stratasys Ltd.	7,218	(14,142)	(6,924)	15,133	(30,431)	(15,298)

The specific pro forma adjustments for the three and six months ended June 30, 2012 have been made for the following purposes:

- a) To reflect the amortization of intangible assets arising from the merger. Accordingly, pro forma adjustments for amortization expense have been included as follows (in thousands):

	Three months ended June 30, 2012	Six months ended June 30, 2012
Cost of sales—products	\$ 9,824	\$ 19,648
Selling, general and administrative	2,242	4,484

- b) To reflect stock-based compensation expense. Objet stock options were only exercisable upon the consummation of a liquidity event, and accordingly, no stock-based compensation expense had been recognized on outstanding Objet stock options. The merger was a liquidity event and vested options became exercisable at the date of the merger. Under reverse acquisition accounting, Objet stock options are deemed (for accounting purposes only) to be replaced by Stratasys options. The fair value of these replacement options attributed to services to be rendered after the merger date, \$44.7 million, is to be included in post-merger stock-based compensation expense. Accordingly, pro forma adjustments to increase stock-based compensation expense have been included as follows (in thousands):

	<b>Three months ended</b>	<b>Six months ended</b>
	<b>June 30, 2012</b>	<b>June 30, 2012</b>
Cost of sales—Products	\$ 271	\$ 533
Cost of sales—Services	311	658
Research and development	850	1,721
Selling, general and administrative	4,858	9,490

- c) To eliminate of transaction costs. Total transaction costs of \$3.2 million related to the merger were recorded as an expense in combined selling, general and administrative expenses for the three months ended June 30, 2012. Total transaction costs of \$4.0 million related to the merger were recorded as an expense in combined selling, general and administrative expenses for the six months ended June 30, 2012. The portion of the costs that were expensed has been removed from selling, general and administrative expenses with a pro forma adjustment for the three and six months ended June 30, 2012 as these costs relate directly to the transaction and do not have an ongoing impact.
- d) To reflect income tax expense. To reflect the effect of the merger on the (provision) benefit for income taxes (with the exception of non-tax deductible stock-based compensation expense and transaction costs) for the three and six months ended June 30, 2012.

The following table sets forth certain statement of operations data on a dollar basis (in thousands) and as a percentage of net sales basis for the periods indicated.

<b>Three Month Periods Ended June 30,</b>	<b>GAAP</b>		<b>GAAP</b>		<b>Pro Forma</b>	
	<b>2013</b>		<b>2012</b>		<b>2012</b>	
Net sales	\$ 106,485	100.0%	\$ 49,406	100.0%	\$ 88,733	100.0%
Cost of sales	56,080	52.7%	23,246	47.1%	48,515	54.7%
Gross profit	50,405	47.3%	26,160	52.9%	40,218	45.3%
Research and development	10,337	9.7%	4,157	8.4%	8,833	10.0%
Selling, general and administrative	42,665	40.1%	16,210	32.8%	36,636	41.3%
Operating income (loss)	(2,597)	-2.4%	5,793	11.7%	(5,251)	-5.9%
Other income	138	0.1%	59	0.1%	714	0.8%
Income (loss) before income taxes	(2,459)	-2.3%	5,852	11.8%	(4,537)	-5.1%
Income taxes	326	0.3%	2,834	5.7%	2,387	2.7%
Net income (loss) attributable to Stratasys Ltd.	(2,800)	-2.6%	3,018	6.1%	(6,924)	-7.8%

<b>Six Month Periods Ended June 30,</b>	<b>GAAP</b>		<b>GAAP</b>		<b>Pro Forma</b>	
	<b>2013</b>		<b>2012</b>		<b>2012</b>	
Net sales	\$ 203,692	100.0%	\$ 94,370	100.0%	\$ 171,772	100.0%
Cost of sales	115,913	56.9%	45,256	48.0%	95,327	55.5%
Gross profit	87,779	43.1%	49,114	52.0%	76,445	44.5%
Research and development	21,126	10.4%	8,509	9.0%	17,905	10.4%
Selling, general and administrative	85,990	42.2%	27,585	29.2%	69,748	40.6%
Operating income (loss)	(19,337)	-9.5%	13,020	13.8%	(11,208)	-6.5%
Other income	652	0.3%	355	0.4%	907	0.5%
Income (loss) before income taxes	(18,685)	-9.2%	13,375	14.2%	(10,301)	-6.0%
Income taxes (benefit)	(417)	-0.2%	5,835	6.2%	4,997	2.9%
Net income (loss) attributable to Stratasys Ltd.	(18,336)	-9.0%	7,540	8.0%	(15,298)	-8.9%

## Discussion of Results of Operations

### Net Sales

Net sales of our products and services for the three months ended June 30, 2013 and 2012, as well as the percentage change from 2012 to 2013, were as follows (in thousands):

	<b>GAAP</b>	<b>GAAP</b>	<b>Pro Forma</b>	<b>GAAP</b>	<b>Pro Forma</b>
	<b>2013</b>	<b>2012</b>	<b>Combined</b>	<b>Change</b>	<b>Change</b>
			<b>2012</b>		
Products	\$ 90,213	\$ 41,444	\$ 76,077	117.7%	18.6%
Services	16,272	7,962	12,656	104.4%	28.6%
	<u>\$ 106,485</u>	<u>\$ 49,406</u>	<u>\$ 88,733</u>	115.5%	20.0%

Net sales of our products and services for the six months ended June 30, 2013 and 2012, as well as the percentage change from 2012 to 2013, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Products	\$ 172,023	\$ 78,990	\$ 147,318	117.8%	16.8%
Services	31,669	15,380	24,454	105.9%	29.5%
	<u>\$ 203,692</u>	<u>\$ 94,370</u>	<u>\$ 171,772</u>	115.8%	18.6%

### **Product Revenues**

Systems revenue in the three and six months ended June 30, 2013 increased as compared to GAAP systems revenue in the three and six months ended June 30, 2012. The number of systems shipped in the three months ended June 30, 2013 increased by 62.5% to 1,261 units as compared to 776 units shipped in the three months ended June 30, 2012. The number of systems shipped in the six months ended June 30, 2013 increased by 52.0% to 2,429 units as compared to 1,598 units shipped in the six months ended June 30, 2012. The increase in both revenue and number of systems shipped primarily reflects the results of the second full quarter of combined operations of Stratasy, Inc. and Objet after the merger.

Systems revenue in the three and six months ended June 30, 2013 increased as compared to pro forma combined systems revenue in the three and six months ended June 30, 2012. The pro forma combined number of systems shipped in the three months ended June 30, 2013 increased by 16.2%, to 1,261 units as compared to 1,085 units shipped in the three months ended June 30, 2012. The pro forma combined number of systems shipped in the six months ended June 30, 2013 increased by 10.4%, to 2,429 units as compared to 2,200 units shipped in the six months ended June 30, 2012. The units shipped in 2012 benefited from 92 and 333 units shipped in the three and six months ended June 30, 2012, respectively, pursuant to our OEM agreement with Hewlett-Packard Corporation (“HP”) that was terminated effective December 31, 2012. These increases reflect strong unit sales of our higher-priced Production and Design series systems. The demand for these high-performance systems has been driven by the development of new DDM applications for our Fortus systems and the continued adoption of our Connex systems for complex prototyping using a wide range of materials with diverse mechanical and physical properties. In addition, systems sales increased due to the increased market penetration of our entry-level Idea series systems. System sales in three months ended March 31, 2013 included approximately \$6.0 million in revenue related to the sale of demo units to our channel partners. These demo system sales were an important part of our reseller cross-training program that is aimed at combining the sales channel and promoting the complementary product lines of our constituent companies. We did not have significant demo system sales in the three months ended June 30, 2013. Growth in system sales was offset by \$0.2 million and \$1.2 million non-cash reductions in revenue in the three and six months ended June 30, 2013, respectively, due to amortization of purchase accounting adjustments related to the merger.

Consumables revenue in the three months ended June 30, 2013 increased by 161.8% as compared to GAAP consumables revenues in the three months ended June 30, 2012. Consumables revenue in the six months ended June 30, 2013 increased by 160.2% as compared to GAAP consumables revenues in the six months ended June 30, 2012. This increase primarily reflects the results of the second full quarter of combined operations of Stratasy, Inc. and Objet after the merger.

Consumables revenue in the three months ended June 30, 2013 increased by 23.0% as compared to pro forma combined consumables revenues in the three months ended June 30, 2012. Consumables revenue in the six months ended June 30, 2013 increased by 20.5% as compared to pro forma combined consumables revenues in the six months ended June 30, 2012. The increases are driven by an acceleration in customer usage and our growing installed base of systems. The strong Production series and high-end Design series system sales in prior periods contributed to strong consumables sales growth given their relatively higher consumable utilization rates. We believe that the continued strength in the Production series and high-end Design series system sales and our growing installed base of systems are positive indicators of consumables revenue growth in future periods.

### Service Revenue

The increase in service revenue for the three and six months ended June 30, 2013, as compared to the GAAP service revenue for the three and six months ended June 30, 2012, primarily reflects the results of the second full quarter of combined operations of Stratasys, Inc. and Objet after the merger.

Revenues from our service offerings in the three and six months ended June 30, 2013 increased, as compared to pro forma combined service revenues in the three and six months ended June 30, 2012. The increase in service revenues is attributable to increased revenue from maintenance contracts and service parts, reflecting our growing base of installed systems. Revenue from our RedEye paid parts service in the three and six months ended June 30, 2013 increased by 34.1% and 37.9%, respectively, as compared to the three and six months ended June 30, 2012 primarily due to an increased demand for large and complex production parts and the continued development of our sales channels.

### Revenue by Region

Net sales and the percentage of net sales by region for the three months ended June 30, 2013 and 2012, as well as the percentage change from 2012 to 2013 were as follows (in thousands):

	GAAP 2013		GAAP 2012		Pro Forma Combined 2012		GAAP Change	Pro Forma Combined Change
North America	\$ 55,407	52.0%	\$ 26,181	53.0%	\$ 45,934	51.8%	111.6%	20.6%
Europe	28,985	27.3%	14,110	28.6%	25,713	29.0%	105.4%	12.7%
Asia Pacific	20,668	19.4%	8,623	17.5%	15,484	17.5%	139.7%	33.5%
Other	1,425	1.3%	492	1.0%	1,602	1.7%	189.6%	-11.0%
	<u>\$ 106,485</u>	<u>100.0%</u>	<u>\$ 49,406</u>	<u>100.0%</u>	<u>\$ 88,733</u>	<u>100.0%</u>	<u>115.5%</u>	<u>20.0%</u>

Net sales and the percentage of net sales by region for the six months ended June 30, 2013 and 2012, as well as the percentage change from 2012 to 2013 were as follows (in thousands):

	GAAP 2013		GAAP 2012		Pro Forma Combined 2012		GAAP Change	Pro Forma Combined Change
North America	\$ 104,257	51.2%	\$ 48,328	51.2%	\$ 86,148	50.2%	115.7%	21.0%
Europe	56,358	27.7%	28,985	30.7%	52,088	30.3%	94.4%	8.2%
Asia Pacific	40,387	19.8%	15,817	16.8%	29,881	17.4%	155.3%	35.2%
Other	2,690	1.2%	1,240	1.3%	3,655	2.1%	116.9%	-26.4%
	<u>\$ 203,692</u>	<u>100.0%</u>	<u>\$ 94,370</u>	<u>100.0%</u>	<u>\$ 171,772</u>	<u>100.0%</u>	<u>115.8%</u>	<u>18.6%</u>

Revenue in all regions increased in the second quarter of 2013, as a result of strong sales growth in systems and consumables. In addition, the increase in revenue reflects the results of the merger in December 2012.

## Gross Profit

Gross profit for our products and services for the three months ended June 30, 2013 and 2012, as well as the percentage change from 2012 to 2013, was as follows (in thousands):

	GAAP 2013	GAAP 2012	Pro Forma Combined 2012	GAAP Change	Pro Forma Combined Change
<b>Gross profit attributable to:</b>					
Products	\$ 44,482	\$ 22,793	\$ 36,097	95.2%	23.2%
Services	5,923	3,367	4,121	75.9%	43.7%
	<u>\$ 50,405</u>	<u>\$ 26,160</u>	<u>\$ 40,218</u>	92.7%	25.3%

Gross profit for our products and services for the six months ended June 30, 2013 and 2012, as well as the percentage change from 2012 to 2013, was as follows (in thousands):

	GAAP 2013	GAAP 2012	Pro Forma Combined 2012	GAAP Change	Pro Forma Combined Change
<b>Gross profit attributable to:</b>					
Products	\$ 77,249	\$ 42,528	\$ 68,912	81.6%	12.1%
Services	10,530	6,586	7,533	59.9%	39.8%
	<u>\$ 87,779</u>	<u>\$ 49,114</u>	<u>\$ 76,445</u>	78.7%	14.8%

Gross profit as a percentage of sales for our products and services for the three months ended June 30, 2013 and 2012, as well as the percentage change from year to year, was as follows:

	GAAP 2013	GAAP 2012	Pro Forma Combined 2012	GAAP Change	Pro Forma Combined Change
<b>Gross profit as a percentage of revenues from:</b>					
Products	49.3%	55.0%	47.4%	-10.3%	3.9%
Services	36.4%	42.3%	32.6%	-13.9%	11.8%
Total gross profit	47.3%	52.9%	45.3%	-10.6%	4.4%

Gross profit as a percentage of sales for our products and services for the six months ended June 30, 2013 and 2012, as well as the percentage change from year to year, was as follows:

	GAAP 2013	GAAP 2012	Pro Forma Combined 2012	GAAP Change	Pro Forma Combined Change
<b>Gross profit as a percentage of revenues from:</b>					
Products	44.9%	53.8%	46.8%	-16.6%	-4.0%
Services	33.3%	42.8%	30.8%	-22.4%	7.9%
Total gross profit	43.1%	52.0%	44.5%	-17.2%	-3.2%

Gross profit from product sales in the three and six months ended June 30, 2013 increased, as compared to the GAAP results for the three and six months ended June 30, 2012, due to the increase in sales discussed above. Gross profit as a percentage of related product sales in the three and six months ended June 30, 2013 decreased as compared to the GAAP results for the three and six months ended June 30, 2012. The changes in gross profit from products and gross profit as a percentage of related sales primarily reflects the results of the merger in December 2012, which resulted in expenses of \$11.5 million and \$30.8 million in amortization of intangible assets for the three and six months ended June 30, 2013, respectively.

Gross profit from product sales in the three and six months ended June 30, 2013 increased as compared to pro forma combined gross profit from product sales in the three and six months ended June 30, 2012, due to the increase in sales discussed above. The changes in gross profit from products and gross profit as a percentage of related product sales primarily reflects the results of the merger in December 2012, which resulted in expenses of \$11.3 million and \$29.6 million in amortization of intangible assets for the three and six months ended June 30, 2013, respectively, and expenses of \$9.8 million and \$19.6 million in amortization of intangible assets for the pro forma combined results of operations for the three and six months ended June 30, 2012. The effect of amortization expense on gross profit from products and gross profit as a percentage of related product sales was partially offset by increased systems and consumables sales volume to cover fixed overhead, a product mix 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 in the three and six months ended June 30, 2013 increased as compared to the GAAP results for the three and six months ended June 30, 2012. Gross profit as a percentage of related service sales in the three and six months ended June 30, 2013 decreased as compared to the GAAP results for the three and six months ended June 30, 2012. The change in gross profit and gross profit as a percentage of related service sales primarily reflects the results of the first two quarters of combined operations of our companies and their differing service margins after the merger.

Gross profit from services in the three and six months ended June 30, 2013 increased as compared to pro forma combined gross profit from services in the three and six months ended June 30, 2012. Gross profit as a percentage service revenues in the three and six months ended June 30, 2013 increased as compared to the three and six months ended June 30, 2012. The changes in gross profit from services and gross profit as a percentage of related sales primarily reflect strong growth in our customer service maintenance contracts and spare parts sales. In addition, our RedEye paid parts service gross profit and gross profit as a percentage of related sales increased due to growth in sales volume to cover fixed overhead.

### Operating Expenses

The amount of each type of operating expense for the three months ended June 30, 2013 and 2012, as well as the percentage change between such quarterly periods, and total operating expenses as a percentage of our total sales in each such quarterly period, was as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Research and development	\$ 10,337	\$ 4,157	\$ 8,833	148.7%	17.0%
Selling, general & administrative	42,665	16,210	36,636	163.2%	16.5%
	<u>\$ 53,002</u>	<u>\$ 20,367</u>	<u>\$ 45,469</u>	160.2%	16.6%
Percentage of Sales	49.8%	41.2%	51.2%		

The amount of each type of operating expense for the six months ended June 30, 2013 and 2012, as well as the percentage change between such periods, and total operating expenses as a percentage of our total sales in each such period, was as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Research and development	\$ 21,126	\$ 8,509	\$ 17,905	148.3%	18.0%
Selling, general & administrative	85,990	27,585	69,748	211.7%	23.3%
	<u>\$ 107,116</u>	<u>\$ 36,094</u>	<u>\$ 87,653</u>	196.8%	22.2%
Percentage of Sales	52.6%	38.2%	51.0%		

Research and development expenses for the three and six months ended June 30, 2013 increased as compared to the GAAP results for the three and six months ended June 30, 2012. The increase primarily reflects the results of the second full quarter of combined operations of Stratasys, Inc, and Objet after the merger. Research and development expenses for the three and six months June 30, 2013 increased as compared to pro forma combined research and development expenses for the three and six months ended June 30, 2012. The increase was primarily driven by increased investment in new product initiatives and an increase in headcount to support these initiatives. Research and development expense as a percentage of sales increased in the three and six months ended June 30, 2013 as compared to the GAAP results for the three and six months ended June 30, 2012. This increase reflects our intention to continue to invest in research and development efforts, which focus on enhancing our AM technologies and developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, aimed at broadening user applications. The increase was partially offset by an increase in research and development expense reimbursements received in connection with our collaborative agreements discussed below.

We have agreements with two manufacturing companies under which we jointly advance certain of our proprietary technology with each of those two companies. The agreements entitle us to receive reimbursement payments of costs actually incurred under joint development projects. During the three months ended June 30, 2013 and 2012, approximately \$1.0 million and \$166,000, respectively, of research and development expenses were offset by payments that we received from these companies. During the six months ended June 30, 2013 and 2012 approximately \$2.1 million and \$317,000, respectively, of research and development expenses were offset by payments that we received from these companies.

Selling, general and administrative expenses for the three and six months ended June 30, 2013 increased as compared to the GAAP results for the three and six months ended June 30, 2012. The increase primarily reflects the results of the second full quarter of combined operations of Stratasys, Inc. and Objet after the merger, which included \$3.6 million and \$7.3 million in stock compensation expense and \$2.2 million and \$7.5 million in amortization expense related to intangible assets for the three and six months ended June 30, 2013, respectively.

Selling, general and administrative expenses for the three and six months ended June 30, 2013 increased as compared to pro forma combined selling, general and administrative expenses for the three and six months ended June 30, 2012. The increase was primarily due to significant integration expenses related to the merger as well our pending merger with MakerBot, changes in our product distribution strategy involving independent sales agents and indirect channels involving resellers, which resulted in increased sales commissions, expenses for strategic and marketing initiatives aimed at increasing our market presence and an increase in administrative expenses and headcount to support our growth. The increase for the six months ended June 30, 2013 was also due to the inclusion of \$7.3 million in stock compensation expense and \$7.5 million in amortization expense related to intangible assets as compared to \$9.5 million in stock compensation expense and \$4.5 million in amortization expense related to intangible assets for the pro forma combined six months ended June 30, 2012.



## Operating Income (Loss)

Operating income (loss) and operating income (loss) as a percentage of our total revenues for the three months ended June 30, 2013 and 2012, as well as the percentage change in operating income (loss) between those quarters, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Operating income (loss)	\$ (2,597)	\$ 5,793	\$ (5,251)	-144.8%	50.5%
Percentage of sales	-2.4%	11.7%	-5.9%		

Operating income (loss) and operating income (loss) as a percentage of our total revenues for the six months ended June 30, 2013 and 2012, as well as the percentage change in operating income (loss) between those periods, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Operating income (loss)	\$ (19,337)	\$ 13,020	\$ (11,208)	-248.5%	-72.5%
Percentage of sales	-9.5%	13.8%	-6.5%		

Operating income for the three and six months ended June 30, 2013 decreased as compared to the GAAP results for the three and six months ended June 30, 2012. The decrease in operating income was primarily attributable to an expense of \$13.8 million from amortization of intangible assets and to stock compensation expense of \$5.0 million related to acquired Objet stock options for the three months ended June 30, 2013 and an expense of \$38.4 million from amortization of intangible assets and to stock compensation expense of \$10.2 million related to acquired Objet stock options for the six months ended June 30, 2013. Operating loss for the three months ended June 30, 2013 decreased as compared to pro forma combined operating income for the three months ended June 30, 2012. The reduction in operating income was primarily attributable increased systems, consumables and service sales discussed above. Operating loss for the six months ended June 30, 2013 increased as compared to pro forma combined operating loss for the six months ended June 30, 2012. The increase in operating loss was primarily attributable to an expense of \$38.4 million from amortization of intangible assets and to stock compensation expense of \$10.2 million related to acquired Objet stock options for the six months ended June 30, 2013 as compared to amortization expense of \$24.1 million from intangible assets and stock compensation expense of \$12.4 million related acquired Objet stock options in the pro forma combined operating loss for the six months ended June 30, 2012. The effect of the increase in amortization expense on operating income was partially offset by the increased systems, consumables and service sales discussed above.

## Income Taxes (Benefit)

Income taxes and income taxes as a percentage of net income (loss) before taxes for the three months ended June 30, 2013 and 2012, as well as the percentage change in income taxes between those quarters, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Income taxes	\$ 326	\$ 2,834	\$ 2,387	-88.5%	-86.3%
As a percent of income (loss) before income taxes	-13.3%	48.4%	-52.6%		

Income taxes (benefit) and income taxes (benefit) as a percentage of net income (loss) before taxes for the six months ended June 30, 2013 and 2012, as well as the percentage change in income taxes between those periods, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Income taxes (benefit)	\$ (417)	\$ 5,835	\$ 4,997	-107.1%	-108.3%
As a percent of income (loss) before income taxes	2.2%	43.6%	-48.5%		

The effective tax rate on the loss before income taxes for the three and six months ended June 30, 2013 was lower as compared to the effective rate on the income before income taxes for the GAAP three and six months ended June 30, 2012. The income tax rate in Israel is significantly lower than the income tax rate in the U.S. Our effective tax rate has varied significantly since the merger due to the lower tax rate in Israel, and changes in mix of income (loss) between the U.S. and Israel, as well as the impact of the lower Israel rates on tax benefit as a result of the realization of the deferred tax liability associated with the amortization of the intangible assets. Income tax expense increased in the three months ended June 30, 2013 as compared to the three months ended March 31, 2013 primarily due to a lower tax benefit as a result of lower realization of the deferred tax liability associated with the amortization of the intangible assets and the reinstatement of 2012 federal research credit on January 2, 2013, of which credit of approximately \$350,000 was recorded in the first quarter of 2013.

The total research credit for the three and six months ended June 30, 2013 was \$120,000 and \$580,000, respectively. In addition, during the second quarter of 2013, the Company adjusted its long-term tax rates due to obtaining an approval from the Israeli Tax Authorities under the Approved Enterprise and Privileged Enterprise programs. As a result, the Company recorded a reduction of approximately \$1.3 million in its income tax expense and in its deferred tax liabilities associated with the amortization of the intangible assets.

## Net Income (Loss) Attributable to Stratasys Ltd.

Net income (loss) and net income (loss) as a percentage of our total revenues for the three months ended June 30, 2013 and 2012, as well as the percentage change in net income (loss) between those periods, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Net income (loss) attributable to Stratasys Ltd.	\$ (2,800)	\$ 3,018	\$ (6,924)	-192.8%	-59.6%
Percentage of sales	-2.6%	6.1%	-7.8%		

Net income (loss) and net income (loss) as a percentage of our total revenues for the six months ended June 30, 2013 and 2012, as well as the percentage change in net income (loss) between those quarters, were as follows (in thousands):

	<b>GAAP 2013</b>	<b>GAAP 2012</b>	<b>Pro Forma Combined 2012</b>	<b>GAAP Change</b>	<b>Pro Forma Combined Change</b>
Net income (loss) attributable to Stratasys Ltd.	\$ (18,336)	\$ 7,540	\$ (15,298)	-343.2%	19.9%
Percentage of sales	-9.0%	8.0%	-8.9%		

For the reasons cited previously in this “Operating and Financial Review and Prospects” section, our net income (loss) for the three months ended June 30, 2013 was lower than the prior year period and our net income (loss) for the six months ended June 30, 2012 was lower than the prior-year period.

## Supplemental Operating Results on a Non-GAAP Basis

### Results of Operations Data on a Non-GAAP and Pro Forma Non-GAAP Basis

The following tables sets forth certain unaudited historical non-GAAP data for the three and six months ended June 30, 2013 and unaudited pro forma non-GAAP combined data for the three and six months ended June 30, 2012 (in thousands).

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Non-GAAP</b>	<b>Pro Forma Non-GAAP</b>	<b>Non-GAAP</b>	<b>Pro Forma Non-GAAP</b>
Gross profit	\$ 63,118	\$ 51,059	\$ 121,026	\$ 98,155
Operating income	21,710	17,555	42,011	34,014
Net income attributable to Stratasys Ltd.	18,566	14,121	36,145	26,710

The following table sets forth certain unaudited historical non-GAAP data as a percentage of sales for the three and six months ended June 30, 2013 and unaudited pro forma non-GAAP combined data as a percentage of sales for the three and six months ended June 30, 2012, in each case expressing the data from the immediately preceding table as a percentage of net sales for the periods indicated.

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2012</u>		<u>2012</u>	
	<u>2013</u>	<u>Pro Forma</u>	<u>2013</u>	<u>Pro Forma</u>
	<u>Non-GAAP</u>	<u>Non-GAAP</u>	<u>Non-GAAP</u>	<u>Non-GAAP</u>
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	59.2%	57.5%	59.1%	57.1%
Operating income	20.3%	19.8%	20.5%	19.8%
Net income attributable to Stratasys Ltd.	17.4%	15.9%	17.6%	15.5%

The foregoing pro forma non-GAAP data, which exclude the categories of expenses described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures are useful information for investors and shareholders of our company in gauging our results of operations (x) on an ongoing basis after the merger, when the exceptional expenses related to acquisitions, and to Objet's proposed initial public offering in 2012 will not recur, and (y) excluding non-cash charges for share-based compensation and amortization of intangible assets, which do not reflect actual cash outlays that impact our liquidity or our financial condition, as assessed by management. These non-GAAP financial measures are presented solely 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. A reconciliation of pro forma GAAP and pro forma non-GAAP results of operations is set forth at the end of the following discussion.

#### Discussion of Results of Operations on Non-GAAP Basis

##### Gross Profit

Gross profit for the three and six months ended June 30, 2013 and 2012, gross profit as a percentage of sales, as well as the percentage change, were as follows (in thousands):

	<u>Three months ended June 30,</u>			<u>Six months ended June 30,</u>		
	<u>2012</u>			<u>2012</u>		
	<u>2013</u>	<u>Pro Forma</u>	<u>Change</u>	<u>2013</u>	<u>Pro Forma</u>	<u>Change</u>
<u>Non-GAAP</u>	<u>Non-GAAP</u>	<u>Non-GAAP</u>		<u>Non-GAAP</u>		
Gross profit	\$ 63,118	\$ 51,059	23.6%	\$ 121,026	\$ 98,155	23.3%
Percentage of sales	59.2%	57.5%		59.1%	57.1%	

Non-GAAP gross profit for the three and six months ended June 30, 2013 increased as compared to the three and six months ended June 30, 2012. The increase was primarily attributable to sales growth in systems, consumables and services. The number of systems shipped for the three and six months ended June 30, 2013 increased by 16.2%, to 1,261 units and 10.4%, to 2,429 units, respectively, as compared to 1,085 units and 2,200 units shipped in the three and six months ended June 30, 2012, respectively, on a pro forma combined basis. The units shipped in 2012 benefited from 92 and 333 units shipped in the three and six months ended June 30, 2012, respectively, pursuant to our OEM agreement with HP that was terminated effective December 31, 2012. The increase in system sales in the three and six months ended June 30, 2013 reflects strong unit sales of our higher-priced Production and Design series systems and increased market penetration of our entry-level Idea series systems as discussed above.

Consumables revenue in the three and six months ended June 30, 2013 increased by 23.0% and 20.5%, respectively, as compared to pro forma combined consumables revenue in the three and six months ended June 30, 2012, driven by an acceleration in customer usage and our growing installed base of systems.

Revenues from our service offerings in the three and six months ended June 30, 2013 increased as compared to pro forma combined service revenues in the three and six months ended June 30, 2012. The increase in service revenues is attributable to increased revenue from maintenance contracts and service parts, reflecting our growing base of installed systems. Revenue from our RedEye paid parts service in the three and six months ended June 30, 2013 increased by 34.1% and 37.9%, respectively, as compared to the three and six months ended June 30, 2012, primarily due to an increased demand for large and complex production parts and the continued development of our sales channels.

Non-GAAP gross profit as a percentage of sales increased as compared to the three and six months ended June 30, 2012, primarily due to increased systems, consumables and service sales volume to cover fixed overhead, a product mix that favored our higher-margin Production series and high-end Design series systems and strong growth in our high-margin consumables sales.

### Operating Income

Operating income and operating income as a percentage of our total revenues for the three and six months ended June 30, 2013 and 2012, as well as the percentage change in operating income between those periods in the respective years, were as follows (in thousands):

	<u>Three months ended June 30,</u>			<u>Six months ended June 30,</u>		
	<u>2012</u>			<u>2012</u>		
	<u>2013</u>	<u>Pro Forma</u>	<u>Change</u>	<u>2013</u>	<u>Pro Forma</u>	<u>Change</u>
	<u>Non-GAAP</u>	<u>Non-GAAP</u>		<u>Non-GAAP</u>	<u>Non-GAAP</u>	
Operating income	\$ 21,710	\$ 17,555	23.7%	\$ 42,011	\$ 34,014	23.5%
Percentage of sales	20.3%	19.8%		20.5%	19.8%	

Non-GAAP operating income for the three and six months ended June 30, 2013 increased as compared to the pro forma non-GAAP combined operating income for the three and six months ended June 30, 2012. The increase in operating income was primarily due to the increase in sales and gross profit discussed above. The increase in operating income attributable to sales growth was partially offset by an increase in operating expenses related to research and development initiatives, changes in our product distribution strategy involving independent sales agents and indirect channels involving resellers, which resulted in increased sales commissions, expenses for strategic initiatives to increase our market presence by intensifying marketing efforts and an increase in administrative expenses and headcount to support our growth. The growth in operating income as a percentage of sales as compared to the prior year reflects our ability to leverage fixed costs and grow sales faster than operating expenses.

## Net Income Attributable to Stratasys Ltd.

Net income and net income as a percentage of our total revenues for the three and six months ended June 30, 2013 and 2012, as well as the percentage change in net income between those periods in the respective years, were as follows:

	<u>Three months ended June 30,</u>			<u>Six months ended June 30,</u>		
	2012			2012		
	<u>2013</u>	<u>Pro Forma</u>	<u>Change</u>	<u>2013</u>	<u>Pro Forma</u>	<u>Change</u>
<u>Non-GAAP</u>	<u>Non-GAAP</u>	<u>Non-GAAP</u>		<u>Non-GAAP</u>		
Net income attributable to Stratasys Ltd.	\$ 18,566	\$ 14,121	31.5%	\$ 36,145	\$ 26,710	35.3%
Percentage of sales	17.4%	15.9%		17.6%	15.5%	

Non-GAAP net income for the three and six months ended June 30, 2013 increased as compared to pro forma non-GAAP combined net income for the three and six months ended June 30, 2012. In addition to the factors discussed above, net income increased as compared to the second quarter of the prior year due to a decrease in the effective tax rate. The decrease is primarily due to the lower tax rate on earnings in Israel. In addition, the federal research credit was reinstated on January 2, 2013, so the entire 2012 credit of approximately \$0.4 million was recorded in the first quarter of 2013. The research credit for the three and six months ended June 30, 2013 was \$120,000 and \$580,000, respectively. The federal research credit had expired on December 31, 2011 and, therefore, was not considered in computing the effective rate for the three and six months ended June 30, 2012.

A significant portion of our income after the December 1, 2012 merger date will be taxed in Israel. We expect to realize significant tax savings based on the determination that some of our industrial projects that have been granted “Approved Enterprise” and “Privileged Enterprise” status, which provides certain benefits, including tax exemptions for undistributed income and reduced tax rates. In addition, we are a Foreign Investors Company and Industrial Company as defined by the Israeli Investment Law, which entitles us to further reductions in the tax rate normally applicable to Approved Enterprises and Privileged Enterprises, depending on the level of foreign ownership, and certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes.

The entitlement to the above benefits is conditional upon our fulfilling the conditions stipulated by the Investment Law and related regulations. Should we fail to meet such requirements in the future, income attributable to our Approved Enterprise and Privileged Enterprise programs could be subject to the statutory Israeli corporate tax rate and we could be required to refund a portion of the tax benefits already received with respect to such programs.

For additional information relating to the Israeli tax benefits that we expect to receive, please refer to “Israeli Tax Considerations and Government Programs” in Item 4.B of our annual report on Form 20-F for the year ended December 31, 2012.

## Reconciliation of Pro Forma GAAP and Pro Forma Non-GAAP Results of Operations

For the three months ended June 30, (in thousands)

	2013	Non-GAAP Adjustments	2013 Non-GAAP	2012 Pro Forma	Non-GAAP Adjustments	2012 Pro Forma Non-GAAP
Gross profit (1)	\$ 50,405	\$ 12,713	\$ 63,118	\$ 40,218	\$ 10,841	\$ 51,059
Operating income (loss) (1,2)	(2,597)	24,307	21,710	(5,251)	22,806	17,555
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(2,800)	21,366	18,566	(6,924)	21,045	14,121
(1) Acquired Objet intangible assets amortization expense		11,344			9,823	
Acquired Solidscape intangible assets amortization expense		436			436	
Non-cash stock-based compensation expense		632			582	
Fair value of Objet deferred revenue pre-merger		199				
Acquisitions related expense		102				
		<u>12,713</u>			<u>10,841</u>	
(2) Acquired Objet intangible assets amortization expense		2,292			2,242	
Acquired Solidscape intangible assets amortization expense		133			133	
Non-cash stock-based compensation expense		4,727			6,340	
Acquisitions related expense		4,442			3,250	
		<u>11,594</u>			<u>11,965</u>	
		<u>24,307</u>			<u>22,806</u>	
(3) Tax expense related to adjustments		(2,917)			(1,761)	
Depreciation and amortization expense attributable to non- controlling interest		(24)				
		<u>\$ 21,366</u>			<u>\$ 21,045</u>	

For the six months ended June 30, (in thousands)

		Non-GAAP	2013	2012	Non-GAAP	2012
	2013	Adjustments	Non-GAAP	Pro Forma	Adjustments	Pro Forma
						Non-GAAP
Gross profit (1)	\$ 87,779	\$ 33,247	\$ 121,026	\$ 76,445	\$ 21,710	\$ 98,155
Operating income (loss) (1,2)	(19,337)	61,348	42,011	(11,208)	45,222	34,014
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(18,336)	54,481	36,145	(15,298)	42,008	26,710
(1) Acquired Objet intangible assets amortization expense		29,670			19,648	
Acquired Solidscape intangible assets amortization expense		872			872	
Non-cash stock-based compensation expense		1,266			1,190	
Fair value of Objet deferred revenue pre-merger		1,214				
Merger related expense		225				
		<u>33,247</u>			<u>21,710</u>	
(2) Acquired Objet intangible assets amortization expense		7,620			4,484	
Acquired Solidscape intangible assets amortization expense		266			266	
Non-cash stock-based compensation expense		9,584			12,324	
Solidscape acquisition expense		-			130	
Acquisition related expense		10,631			6,308	
		<u>28,101</u>			<u>23,512</u>	
		<u>61,348</u>			<u>45,222</u>	
(3) Tax expense related to adjustments		(6,803)			(3,214)	
Depreciation and amortization expense attributable to non-controlling interest		(64)				
		<u>\$ 54,481</u>			<u>\$ 42,008</u>	



## Liquidity and Capital Resources

A summary of our statement of cash flows for the six months ended June 30, 2013 and 2012 is as follows (in thousands):

	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ (18,268)	\$ 7,540
Depreciation and amortization	46,975	5,519
Deferred income taxes	(9,393)	-
Stock-based compensation	10,851	1,113
Excess tax benefit from stock options	(986)	(578)
Loss on amount funded in respect of employees' rights upon retirement	(122)	-
Change in working capital and other	(31,257)	(1,655)
Net cash provided by (used in) operating and other activities	(2,200)	11,939
Net cash from provided by (used in) investing activities	9,581	(7,132)
Net cash provided by financing activities	6,974	2,085
Effect of exchange rate changes on cash	(120)	(16)
Net change in cash and cash equivalents	14,235	6,876
Cash and cash equivalents, beginning of period	133,826	20,092
Cash and cash equivalents, end of period	<u>\$ 148,061</u>	<u>\$ 26,968</u>

Our cash and cash equivalents balance increased by \$14.2 million at June 30, 2013 from \$133.8 million at December 31, 2012. The increase was primarily due to \$9.6 million of cash provided by investing activities, which primarily reflected the maturity of short term deposits net of purchases of property. In addition, cash provided by financing activities was \$7.0 million.

### *Cash flow from operating activities*

We had a deficit in cash from operating activities during the six months ended June 30, 2013. The net loss of \$18.3 million was favorably adjusted due to non-cash charges in depreciation and amortization and a stock-based compensation expense. Non-cash charges that unfavorably affected cash from operating activities were the deferred tax benefit and excess tax benefit from stock option exercises. Changes in working capital using cash from operations included a \$18.2 million increase in accounts receivable due to strong order flow and the merger and an increase in inventory of \$9.7 million in anticipation of strong order flow expected as a result of the merger. In addition, a decrease in accounts payable and other current liabilities primarily driven by an overall increase in operating expenses and timing of payments for merger related expenses resulted in cash used in operating activities of \$10.1 million. Changes in working capital providing cash from operations included a \$5.8 million increase in unearned revenues and a \$3.4 million increase in non-current liabilities.

We generated cash from operating activities during the six months ended June 30, 2012, primarily driven by net income. Net income was favorably adjusted due to non-cash charges in depreciation and amortization and a stock-based compensation expense. Non-cash charges that unfavorably affected cash provided by operating activities were related to the excess tax benefits on stock option exercises. Changes in working capital using cash from operations included a \$7.3 million increase in accounts receivable due to strong order flow and a \$1.2 million increase in receivables from sales-type leases reflecting strong sales growth and continued success of our leasing program. These strong sales also contributed to changes in working capital using cash from operations of \$1.8 million due to increases inventories. Changes in working capital providing cash from operations included a \$7.6 million increase in accounts payables and other current liabilities and a \$1.1 million decrease in prepaid expenses.

### ***Cash flow from investing activities***

Our investing activities provided cash in the six months ended June 30, 2013 and used cash in the six months ended June 30, 2012.

Property and equipment acquisitions, net of sales, totaled \$9.9 million and \$6.3 million in the six months ended June 30, 2013 and 2012, respectively. Our principal property and equipment acquisitions were for manufacturing or engineering development equipment, tooling, property, leasehold improvements and the acquisition of computer systems and software applications. Payments for intangible assets, including patents and capitalized software, amounted to \$0.6 million and \$1.2 million in the six months ended June 30, 2013 and 2012, respectively.

In the six months ended June 30, 2013, \$20.1 million was provided by the maturing of short-term bank deposits. In the six months ended June 30, 2012, proceeds from the sale and maturity of investments and redemption of short-term bank deposits were \$0.4 million, net of the purchasing of investments.

### ***Cash flow from financing activities***

Proceeds from the exercise of stock options and the related excess tax benefit provided cash of \$7.0 million and \$2.1 million in the six months ended June 30, 2013 and 2012, respectively.

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

Our total current assets amounted to \$335.7 million at June 30, 2013, most of which consisted of cash and cash equivalents, short-term bank deposits, accounts receivable, and inventories. Total current liabilities amounted to \$90.3 million. 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. We estimate that we will spend between approximately \$35.0 million and \$45.0 million in 2013 for property and equipment.

The initial MakerBot merger consideration is in the form of issuance of our stock. Additional performance-based earn-outs to MakerBot stakeholders through the end of 2014 have an initial value of up to approximately \$201.0 million, based on our closing stock price as of the date of the merger agreement, June 19, 2013. The value of the performance-based earn-outs is subject to adjustment based on our stock price at time such payments become due, relative to the initial value on June 19, 2013. The earn-out payments, if earned, will be made in issuance of our stock or in cash, or a combination thereof, at our discretion.

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 and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue stock 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 merger and related expenses (whether or not our efforts are successful) that may include transaction costs, closure 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, 2012. 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 or incorporated by reference in this report on 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 often characterized by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue," "believe," "should," "intend," "project" or other similar words, but are not the only way these statements are identified.

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

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

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

- our ability to efficiently and successfully integrate the operations of Stratasys, Inc. and Objet Ltd. after their merger;
- 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;
- 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, 2012, as well as in that annual report generally.

Readers are urged to carefully review and consider the various disclosures made throughout this report on Form 6-K, in our Annual Report on Form 20-F for the year ended December 31, 2012, and in our other reports filed with 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.

Any forward-looking statements in this report on Form 6-K are made as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## **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, 2012.

## **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 "Contingencies," Note 10 to the consolidated financial statements included in this report.

**Stratasys Reports Record Financial Results for the Second Quarter of  
2013 and Updates 2013 Revenue and EPS Guidance**

*Second quarter non-GAAP earnings increase 32% over last year to \$0.45 per diluted share*

*Company reports a second quarter GAAP loss of (\$0.07) per share*

MINNEAPOLIS & REHOVOT, Israel--( BUSINESS WIRE )-- Stratasys Ltd. (NASDAQ: SSYS) today announced record financial results for the second quarter of 2013.

**Q2 Financial Results Summary:**

- Non-GAAP revenue of \$106.7 million for the second quarter of 2013 represents a 20% organic increase over the \$88.7 million pro forma revenue recorded for the same period last year after giving effect to the Stratasys-Objet merger as though it closed on January 1, 2011.
- GAAP revenue for the second quarter was \$106.5 million.
- Non-GAAP net income of \$18.6 million for the second quarter, or \$0.45 per diluted share, represents a 32% increase over pro forma non-GAAP net income of \$14.1 million, or \$0.35 per diluted share, reported for the same period last year.
- GAAP net income for the second quarter was a loss of \$2.8 million, or (\$0.07) per share, versus a pro forma loss of \$6.9 million, or (\$0.19) per share, for the same period last year.
- Non-GAAP gross margins improved to 59.2% for the second quarter from pro forma non-GAAP gross margins of 57.5% in the same period last year.
- GAAP gross margins improved to 47.3% for the second quarter from pro forma gross margins of 45.3% in the same period last year.
- The company invested a net amount of \$10.3 million in R&D during the second quarter, representing 9.7% of sales.
- On a combined basis, the company has shipped a cumulative 32,245 systems worldwide as of June 30, 2013.

“We sustained positive momentum in the second quarter as global demand for our products and services remained strong,” said David Reis, chief executive officer of Stratasys. “Our growth in the second quarter accelerated compared to the first quarter, as the benefits of our recent channel integration and cross-selling initiatives have begun to materialize. This occurred while we continued to invest significantly in other merger integration initiatives. In addition, our margins were favorably impacted by the operating synergies produced by the Stratasys-Objet merger, and the strong sales of our higher-margin products and services. We are very pleased with our record second quarter results.”

**Q2 Business Highlights:**

- Announced the signing of a merger agreement with MakerBot, a leading manufacturer of systems and ecosystem developer within the rapidly growing desktop 3D printing segment.
  - Completed the critical sales, marketing and service team integration initiatives that resulted from the merger of Stratasys and Objet.
  - Observed significant cross-selling opportunities develop within the company’s recently-combined channel, with opportunities expected to build over the coming quarters.
  - Received a multi-million-dollar order that will be shipped in the second half of 2013 from a leading Fortune 500 company for the purchase of multiple Fortus 3D production systems to be used for functional prototyping, and the manufacture of tools and end-use products.
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“With our critical Stratasys-Objet merger-integration activities nearly complete, we can now focus more intently on leveraging our combined sales and marketing organization to drive faster growth,” continued Reis. “Manufacturing applications remain one of the critical drivers of this growth, which was highlighted by the sizable order we received from a leading manufacturer for Fortus systems during the quarter. In addition, we are excited about our announced plan to merge with MakerBot, which we believe will accelerate our growth within the rapidly expanding segment for desktop 3D printers.”

## **Financial Guidance**

As previously communicated, the merger with MakerBot is expected to accelerate Stratasys’ growth rate and be slightly dilutive to Non-GAAP earnings per share in 2013 and accretive to Stratasys Non-GAAP earnings per share by the end of 2014. Stratasys updated its following financial guidance for the fiscal year ending December 31, 2013 to take into consideration the pending merger with MakerBot, with the assumption this merger is completed by mid-August:

- Revenue guidance of \$455 million to \$480 million; versus previous guidance of \$430 million to \$445 million.
- Non-GAAP earnings guidance of \$1.75 to \$1.90 per diluted share; versus previous guidance of \$1.80 to \$1.95 per diluted share.
- GAAP earnings guidance of a (\$0.76) to (\$0.49) per share loss; versus previous guidance of a (\$0.41) to (\$0.16) per share loss.

Non-GAAP earnings guidance excludes \$65.2 million of projected amortization of intangible assets; \$21.0 million to \$23.6 million of share-based compensation expense; and \$16.3 million to \$18.9 million in merger-related expenses.

Organic revenue growth is expected to be relatively stronger toward the end of this year as the company progresses with its Stratasys-Objet integration plan and realizes revenue synergies from selling the combined product portfolio.

Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a table at the end of this press release. The table provides itemized detail of the non-GAAP financial measures.

“We begin the third quarter with positive sales momentum and a strong pipeline of opportunities within the channel. The benefits from our recent integration initiatives are tangible, and we are very excited about our plan to merge with Makerbot, which we expect to close in the middle of this month. Although we are pleased with our near-term performance and continue to project strong growth for the year, we also remain focused on developing the many opportunities that can drive long-term growth for our shareholders,” Reis concluded.

## **Stratasys Ltd. Q2-2013 Conference Call Details**

Stratasys will hold a conference call to discuss its second quarter financial results on Thursday, August 8, 2013 at 8:30 a.m. (ET).

The investor conference call will be available via live webcast on the Stratasys Web site at [www.stratasys.com](http://www.stratasys.com) under the "Investors" tab; or directly at the following web address: <http://edge.media-server.com/m/p/g4fsvr bx/lan/en> .

To participate by telephone, the domestic dial-in number is 866-271-6130 and the international dial-in is 617-213-8894. The access code is 72015855. Investors are advised to dial into the call at least ten minutes prior to the call to register.

The webcast will be available for 90 days on the "Investors" page of the Stratasys Web site or by accessing the provided web address.

(Financial tables follow)

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## Cautionary Statement Regarding Forward-Looking Statements

Certain information included or incorporated by reference in this press may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are often characterized by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue,” “believe,” “should,” “intend,” “project” or other similar words, but are not the only way these statements are identified. These forward-looking statements may include, but are not limited to, statements relating to the company’s objectives, plans and strategies, statements that contain projections of results of operations or of financial condition (including, with respect to the planned MakerBot merger) and all statements (other than statements of historical facts) that address activities, events or developments that the company intends, expects, projects, believes or anticipates will or may occur in the future. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. The company has based these forward-looking statements on assumptions and assessments made by its management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Important factors that could cause actual results, developments and business decisions to differ materially from those anticipated in these forward-looking statements include, among other things: the company’s ability to efficiently and successfully integrate the operations of Stratasys, Inc. and Objet Ltd. after their merger as well as the ability to complete the MakerBot merger and to successfully put in place and execute an effective post-merger integration plan; the overall global economic environment; the impact of competition and new technologies; general market, political and economic conditions in the countries in which the company operates; projected capital expenditures and liquidity; changes in the company’s strategy; government regulations and approvals; changes in customers’ budgeting priorities; litigation and regulatory proceedings; and those factors referred to under “Risk Factors”, “Information on the Company”, “Operating and Financial Review and Prospects”, and generally in the company’s annual report on Form 20-F for the year ended December 31, 2012 filed with the U.S. Securities and Exchange Commission and in other reports that the Company has filed with the SEC. Readers are urged to carefully review and consider the various disclosures made in the company’s SEC reports, which are designed to advise interested parties of the risks and factors that may affect its business, financial condition, results of operations and prospects. Any forward-looking statements in this press release are made as of the date hereof, and the company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Non-GAAP Discussion Disclosure

The information discussed within this release includes financial results and projections that are in accordance with accounting principles generally accepted in the United States (GAAP). In addition, certain non-GAAP financial measures have been provided that exclude certain charges, expenses and income. The non-GAAP measures should be read in conjunction with the corresponding GAAP measures and should be considered in addition to, and not as an alternative or substitute for, the measures prepared in accordance with GAAP. The non-GAAP financial measures are provided in an effort to provide information that investors may deem relevant to evaluate results from the company’s core business operations and to compare the company’s performance with prior periods. The non-GAAP financial measures primarily identify and exclude certain discrete items, such as merger-related expenses, amortization expenses and expenses associated with share-based compensation required under ASC 718. The company uses these non-GAAP financial measures for evaluating comparable financial performance against prior periods.

This release is available on the Stratasys web site at [www.stratasys.com](http://www.stratasys.com)

**Stratasys Ltd.** (Nasdaq: SSYS) is the corporate entity formed in 2012 by the merger of 3D printing companies Stratasys Inc. and Objet Ltd., based in Minneapolis, Minn. and Rehovot, Israel. Stratasys manufactures 3D printers and materials for prototyping and production. The company’s patented FDM<sup>®</sup> and PolyJet<sup>®</sup> processes produce prototypes and manufactured goods directly from 3D CAD files or other 3D content. Systems include affordable desktop 3D printers for idea development, a range of systems for prototyping, and large production systems for direct digital manufacturing. Since June 2012, the company’s range of over 130 3D printing materials has been the widest in the industry and includes more than 120 proprietary inkjet-based photopolymer materials and 10 proprietary FDM-based thermoplastic materials. Stratasys also manufactures Solidscape 3D Printers and operates the RedEye On Demand digital-manufacturing service. The company has more than 1100 employees, holds more than 500 granted or pending additive manufacturing patents globally, and has received more than 20 awards for its technology and leadership. Online at: [www.stratasys.com](http://www.stratasys.com) or <http://blog.stratasys.com>

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**Stratasys Ltd.**
**Consolidated Statements of Operations**
*(in thousands, except per share data)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<b>Net sales</b>				
Products	\$ 90,213	\$ 41,444	\$ 172,023	\$ 78,990
Services	16,272	7,962	31,669	15,380
	106,485	49,406	203,692	94,370
<b>Cost of sales</b>				
Products	45,731	18,651	94,774	36,462
Services	10,349	4,595	21,139	8,794
	56,080	23,246	115,913	45,256
<b>Gross profit</b>	50,405	26,160	87,779	49,114
<b>Operating expenses</b>				
Research and development, net	10,337	4,157	21,126	8,509
Selling, general and administrative	42,665	16,210	85,990	27,585
	53,002	20,367	107,116	36,094
<b>Operating income (loss)</b>	(2,597)	5,793	(19,337)	13,020
<b>Other income</b>	138	59	652	355
<b>Income (loss) before income taxes</b>	(2,459)	5,852	(18,685)	13,375
Income taxes (benefit)	326	2,834	(417)	5,835
<b>Net income (loss)</b>	\$ (2,785)	\$ 3,018	\$ (18,268)	\$ 7,540
Net income attributable to non-controlling interest	\$ 15	\$ -	\$ 68	\$ -
<b>Net income (loss) attributable to Stratasys Ltd.</b>	\$ (2,800)	\$ 3,018	\$ (18,336)	\$ 7,540
<b>Net income (loss) per ordinary share attributable to Stratasys Ltd.</b>				
Basic	\$ (0.07)	\$ 0.14	\$ (0.47)	\$ 0.35
Diluted	(0.07)	0.14	(0.47)	0.35
<b>Weighted average ordinary shares outstanding</b>				
Basic	38,781	21,312	38,637	21,289
Diluted	38,781	21,834	38,637	21,800



**Stratasys Ltd.****Consolidated Balance Sheets***(in thousands)*

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	(unaudited)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 148,061	\$ 133,826
Short-term bank deposits	-	20,063
Restricted deposits	834	929
Accounts receivable:		
Trade, net	81,443	64,678
Other	22,055	22,934
Inventories	64,603	67,995
Net investment in sales-type leases, net	5,687	5,134
Prepaid expenses	3,138	2,751
Deferred income taxes	9,834	4,968
<b>Total current assets</b>	<b>335,655</b>	<b>323,278</b>
<b>Property, plant and equipment, net</b>	<b>68,256</b>	<b>62,070</b>
<b>Other assets</b>		
Goodwill	822,463	822,475
Other intangible assets, net	484,798	510,372
Net investment in sales-type leases	9,206	7,872
Amounts funded in respect of employees rights upon retirement	2,844	2,628
Other non-current assets	2,928	2,818
<b>Total other assets</b>	<b>1,322,239</b>	<b>1,346,165</b>
<b>Total assets</b>	<b>\$ 1,726,150</b>	<b>\$ 1,731,513</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 24,077	\$ 35,235
Other current liabilities	41,116	41,124
Unearned revenues	25,140	18,068
<b>Total current liabilities</b>	<b>90,333</b>	<b>94,427</b>
<b>Non-current liabilities</b>		
Employee rights upon retirement	4,437	4,188
Deferred tax liabilities	51,194	54,693
Unearned revenues - long-term	3,155	3,181
Other non-current liabilities	6,077	2,868

<b>Total liabilities</b>	155,196	159,357
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Ordinary shares, NIS 0.01 nominal value, authorized 60,000 shares; 38,669 and 38,372 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	102	101
Additional paid-in capital	1,477,121	1,459,294
Retained earnings	94,167	112,503
Accumulated other comprehensive loss	(593)	(238)
Equity attributable to Stratasys Ltd.	1,570,797	1,571,660
Non-controlling interest	157	496
Total equity	1,570,954	1,572,156
<b>Total liabilities and equity</b>	<u>\$ 1,726,150</u>	<u>\$ 1,731,513</u>

**Stratasys Ltd.**
**Reconciliation of Pro Forma GAAP to Pro Forma Non-GAAP Results of Operations**
*(in thousands, except per share data)*

	<b>Three Months Ended June 30, 2013</b>			<b>Three Months Ended June 30, 2012</b>		
	<b>GAAP (unaudited)</b>	<b>Adjustments*</b>	<b>Non-GAAP (unaudited)</b>	<b>Pro Forma GAAP (unaudited)</b>	<b>Adjustments*</b>	<b>Pro Forma Non-GAAP (unaudited)</b>
<b>Net sales</b>						
Products	\$ 90,213	\$ 199	\$ 90,412	\$ 76,077	\$ -	\$ 76,077
Services	16,272	-	16,272	12,656	-	12,656
	106,485	199	106,684	88,733	-	88,733
<b>Cost of sales</b>						
Products	45,731	(12,171)	33,560	39,980	(10,530)	29,450
Services	10,349	(343)	10,006	8,535	(311)	8,224
	56,080	(12,514)	43,566	48,515	(10,841)	37,674
<b>Gross profit</b>	50,405	12,713	63,118	40,218	10,841	51,059
<b>Operating expenses</b>						
Research and development, net	10,337	(846)	9,491	8,833	(850)	7,983
Selling, general and administrative	42,665	(10,748)	31,917	36,636	(11,115)	25,521
	53,002	(11,594)	41,408	45,469	(11,965)	33,504
<b>Operating income (loss)</b>	(2,597)	24,307	21,710	(5,251)	22,806	17,555
<b>Other income</b>	138	-	138	714	-	714
<b>Income (loss) before income taxes</b>	(2,459)	24,307	21,848	(4,537)	22,806	18,269
Income taxes	326	2,917	3,242	2,387	1,761	4,148
<b>Net income (loss)</b>	\$ (2,785)	\$ 21,390	\$ 18,606	\$ (6,924)	\$ 21,045	\$ 14,121
Net income attributable to non-controlling interest	\$ 15	\$ 24	\$ 40	\$ -	\$ -	\$ -
Net income (loss) attributable to Stratasys Ltd.	\$ (2,800)	\$ 21,366	\$ 18,566	\$ (6,924)	\$ 21,045	\$ 14,121
<b>Net income (loss) per ordinary share attributable to Stratasys Ltd.</b>						
Basic	\$ (0.07)		\$ 0.48	\$ (0.19)		\$ 0.38

Diluted	(0.07)	0.45	(0.19)	0.35
<b>Weighted average ordinary shares outstanding</b>				
Basic	38,781	38,781	36,757	36,757
Diluted	38,781	41,146	36,757	40,040

The Company considers these non-GAAP measures to be indicative of its core operating results and facilitates a comparison of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes, however these measures should not be viewed as a substitute for the Company's GAAP results.

\* Refer to the "Reconciliation of Non-GAAP Adjustments" herein for further information regarding adjustments.

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Stratasys Ltd.

Reconciliation of Pro Forma GAAP to Pro Forma Non-GAAP Results of Operations

(in thousands, except per share data)

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	GAAP (unaudited)	Adjustments*	Non-GAAP (unaudited)	Pro Forma GAAP (unaudited)	Adjustments*	Pro Forma Non-GAAP (unaudited)
<b>Net sales</b>						
Products	\$ 172,023	\$ 1,214	\$ 173,237	\$ 147,318	\$ -	\$ 147,318
Services	\$ 31,669	\$ -	\$ 31,669	\$ 24,454	\$ -	\$ 24,454
	203,692	1,214	204,906	171,772	-	171,772
<b>Cost of sales</b>						
Products	94,774	(31,348)	63,426	78,406	(21,052)	57,354
Services	21,139	(685)	20,454	16,921	(658)	16,263
	115,913	(32,033)	83,880	95,327	(21,710)	73,617
<b>Gross profit</b>	87,779	33,247	121,026	76,445	21,710	98,155
<b>Operating expenses</b>						
Research and development, net	21,126	(1,745)	19,381	17,905	(1,721)	16,184
Selling, general and administrative	85,990	(26,356)	59,634	69,748	(21,791)	47,957
	107,116	(28,101)	79,015	87,653	(23,512)	64,141
<b>Operating income (loss)</b>	(19,337)	61,348	42,011	(11,208)	45,222	34,014
<b>Other income</b>	652	-	652	907	-	907
<b>Income (loss) before income taxes</b>	(18,685)	61,348	42,663	(10,301)	45,222	34,921
Income taxes (benefit)	(417)	6,803	6,385	4,997	3,214	8,211
<b>Net income (loss)</b>	\$ (18,268)	\$ 54,545	\$ 36,278	\$ (15,298)	\$ 42,008	\$ 26,710
Net income attributable to non-controlling interest	\$ 68	\$ 64	\$ 133	\$ -	\$ -	\$ -
Net income (loss) attributable to Stratasys Ltd.	\$ (18,336)	\$ 54,481	\$ 36,145	\$ (15,298)	\$ 42,008	\$ 26,710
<b>Net income (loss) per ordinary share</b>						

<b>attributable to Stratasys Ltd.</b>						
Basic	\$	(0.47)	\$	0.94	\$ (0.42)	\$ 0.73
Diluted		(0.47)		0.88	(0.42)	0.67

<b>Weighted average ordinary shares outstanding</b>						
Basic		38,637		38,637	36,734	36,734
Diluted		38,637		41,111	36,734	39,931

The Company considers these non-GAAP measures to be indicative of its core operating results and facilitates a comparison of operating results across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results as well as for internal planning and forecasting purposes, however these measures should not be viewed as a substitute for the Company's GAAP results.

\* Refer to the "Reconciliation of Non-GAAP Adjustments" herein for further information regarding adjustments.

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**Stratasys Ltd.**
**Reconciliation of Non-GAAP Adjustments**
*(in thousands)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Net sales, products</b>				
Deferred revenue step-up	199	-	1,214	-
<b>Cost of sales, products</b>				
Objet intangible assets amortization expense	(11,344)	(9,823)	(29,670)	(19,648)
Solidscape intangible assets amortization expense	(436)	(436)	(872)	(872)
Non-cash stock-based compensation expense	(314)	(271)	(633)	(532)
Merger related expense	(77)	-	(173)	-
	<u>(12,171)</u>	<u>(10,530)</u>	<u>(31,348)</u>	<u>(21,052)</u>
<b>Cost of sales, services</b>				
Non-cash stock-based compensation expense	(318)	(311)	(633)	(658)
Merger related expense	(25)	-	(52)	-
	<u>(343)</u>	<u>(311)</u>	<u>(685)</u>	<u>(658)</u>
<b>Research and development, net</b>				
Non-cash stock-based compensation expense	(846)	(850)	(1,745)	(1,721)
<b>Selling, general and administrative</b>				
Objet intangible assets amortization expense	(2,292)	(2,242)	(7,620)	(4,484)
Solidscape intangible assets amortization expense	(133)	(133)	(266)	(266)
Non-cash stock-based compensation expense	(3,881)	(5,490)	(7,839)	(10,603)
Solidscape acquisition expense	-	-	-	(130)
Merger related expense	(4,442)	(3,250)	(10,631)	(6,308)
	<u>(10,748)</u>	<u>(11,115)</u>	<u>(26,356)</u>	<u>(21,791)</u>
<b>Income taxes</b>				
Tax expense related to non-GAAP adjustments	2,917	1,761	6,803	3,214
<b>Net income attributable to non-controlling interest</b>				
Depreciation and amortization expense attributable to non-controlling interest	<u>24</u>	<u>-</u>	<u>64</u>	<u>-</u>
<b>Net income</b>	<u>\$ 21,366</u>	<u>\$ 21,045</u>	<u>\$ 54,481</u>	<u>\$ 42,008</u>

**Stratasys Ltd.**

**Reconciliation of GAAP to Non-GAAP Forward Looking Guidance**

<b>Fiscal Year 2013</b>	<b>Earnings (loss) Per Diluted Share Range</b>
<b>U.S. GAAP measure</b>	(\$0.76) to (\$0.49)
<b>Adjustments</b>	
Stock-based compensation expense	\$0.49 to \$0.55
Intangible assets amortization expense	\$1.52
Merger related expense	\$0.38 to \$0.44
<b>Non-GAAP estimate</b>	<b>\$1.75 to \$1.90</b>

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Source: Stratasys Ltd.

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