STRATASYS LTD.
Form 20-F
March 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2012

OR

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

OR

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

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

Commission file number: 001-35751

STRATASYS LTD.

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant s name into English)

Israel
(Jurisdiction of incorporation or Organization)

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

2 Holtzman Street, Science Park
P.O. Box 2496
Rehovot, Israel 76124
(Address of Principal Executive Offices)

Shane Glenn, Director of Investor Relations
Tel: (952) 294-3416
E-mail: shane.glenn@stratasys.com
7665 Commerce Way

Eden Prairie, Minnesota 55344
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value NIS 0.01 per share	**NASDAQ Global Select Market**

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

38,372,462 Ordinary Shares, NIS 0.01 nominal value, at December 31, 2012.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

US GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

EXPLANATORY NOTE

This annual report on Form 20-F is being filed by the registrant, Stratasys Ltd., an Israeli company. We were incorporated in Israel on March 3, 1998, initially under the name Objet Geometries Ltd. and subsequently, from 2011, under the name Objet Ltd. On December 1, 2012, we completed a merger with Stratasys, Inc., a Delaware corporation, which we refer to as our merger or the merger. Pursuant to the merger, Stratasys, Inc. became our indirect, wholly-owned subsidiary and we changed our name to Stratasys Ltd., and each share of the common stock of Stratasys, Inc. issued and outstanding immediately prior to the effective time of the merger was canceled and automatically converted into the right to receive one of our ordinary shares. Also, as part of the merger, our ordinary shares were listed on the NASDAQ Global Select Market under the trading symbol SSYS , in place of the listing of Stratasys, Inc. s common stock, which had also traded on The NASDAQ Global Select Market under that symbol.

Although the merger was structured as a reverse merger of Stratasys, Inc. with and into an indirect, wholly owned subsidiary of Objet Ltd., Stratasys, Inc. was treated as the acquiring company in the merger for accounting purposes and the merger is being accounted for as a reverse acquisition under the acquisition method of accounting for business combinations. As a result, the historical financial statements of Stratasys, Inc. for periods up until the effective time of the merger on December 1, 2012 are the historical financial statements of the registrant, Stratasys Ltd. The consolidated financial statements of the registrant included in this annual report on Form 20-F include the operations of Stratasys Ltd. (formerly Objet Ltd.) only for the month of December 2012, because the merger was consummated on December 1, 2012.

Notwithstanding the above, given the significance of the merger, we encourage you to review the separate historical financial statements of Objet Ltd. for information related to the historical results of operations and financial condition of Objet Ltd. Those separate financial statements were included in the proxy statement/prospectus in the registrant s Registration Statement on Form F-4, initially filed by the registrant with the Securities and Exchange Commission on June 8, 2012.

Unless otherwise indicated or the context otherwise requires, references to Stratasys, our company, the Company, the combined company, the registrant, we, us, and our refer to Stratasys Ltd. (formerly known as Objet Ltd.), and its consolidated subsidiaries. References to Objet generally refer to Objet Ltd. and its consolidated subsidiaries prior to the effective time of the merger on December 1, 2012, and sometimes also are used as references to our current, ongoing operations 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 operations related to historical Stratasys, Inc. that continue following the merger. The historical financial information set forth in this annual report on Form 20-F, 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).

Other than in the separate historical financial statements of Objet Ltd. that we have referred to above (which do not appear in and are not incorporated by reference into this annual report), unless otherwise indicated herein, all numbers and prices related to ordinary shares and options of our company that predated the effectiveness of the merger have been adjusted to reflect the 1-for-8.691 reverse stock split that was effected with respect to all of Objet s outstanding ordinary shares immediately prior to the effective time of the merger.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this annual report on Form 20-F 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 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 , as well as in this annual report generally.

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

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

USE OF TRADE NAMES

Unless the context otherwise indicates or requires, Stratasys, Objet, Connex, Dimension Ecoworks, Eden, Fortus, FullCure, Po Matrix, Redeye, Solidscape, Vero and all product names and trade names used by us in this annual report are our trademarks and service marks, which may be registered in certain jurisdictions. Although we have omitted the ® and TM trademark designations for such marks in this annual report, all rights to such trademarks and service marks are nevertheless reserved. Furthermore, the Stratasys and Objet design logos are our property. This annual report contains additional trade names, trademarks and service marks of other companies. We do not intend our use or display of other companies tradenames, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

CERTAIN ADDITIONAL TERMS AND CONVENTIONS

In this annual report, unless the context otherwise requires:

- references to the merger or our merger refer to the merger consummated on December 1, 2012 whereby Stratasys, Inc., a Delaware corporation, merged with and into a wholly-owned Delaware subsidiary of Objet Ltd. (now known as Stratasys Ltd.), an Israeli company, with Stratasys, Inc. surviving the merger and becoming a wholly-owned subsidiary of Objet (which changed its name to Stratasys Ltd. at that time);
- references to the merger agreement refer to the Agreement and Plan of Merger, dated as of April 13, 2012, as amended, by and among Stratasys, Inc.; Objet Ltd.; Seurat Holdings Inc., a Delaware corporation and an indirect, wholly-owned subsidiary of Objet (Holdco); and Oaktree Merger Inc., a Delaware corporation and a direct, wholly-owned subsidiary of Holdco, pursuant to which the merger was consummated;
- references to ordinary shares , our shares and similar expressions refer to the Company s Ordinary Shares, nominal value NIS 0.01 per share;
- references to dollars , U.S. dollars , U.S. $ and $ are to United States Dollars;
- references to shekels and NIS are to New Israeli Shekels, the Israeli currency;
- references to the articles or amended articles are to our Amended and Restated Articles of Association, which became effective upon the closing of the merger;
- references to the Companies Law are to Israel s Companies Law, 5759-1999, as amended;
- references to the Securities Act are to the Securities Act of 1933, as amended;
- references to the Exchange Act are to the Securities Exchange Act of 1934, as amended;
- references to NASDAQ are to the Nasdaq Stock Market; and
- references to the SEC are to the United States Securities and Exchange Commission.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not Applicable.

ITEM 3. KEY INFORMATION.

A. Selected Financial Data.

Stratasys, Inc. was 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 historical financial statements of Stratasys, Inc. prior to the effective time of the merger on December 1, 2012 became our historical financial statements. The consolidated financial statements included in this annual report include the operations of Stratasys Ltd. (formerly Objet Ltd.) for only one month (December 2012) because the merger was consummated on December 1, 2012. Therefore, the following selected consolidated financial data reflects the consolidated results of operations and financial position of Stratasys, Inc. as of and for the years ended December 31, 2011, 2010, 2009 and 2008. For 2012, the balance sheet data presented below reflects the financial position of Stratasys Ltd. as of December 31, 2012 and the consolidated statement of operations data reflect the results of operations of Stratasys, Inc. from January 1 through November 30, 2012, and the combined company from December 1 through December 31, 2012.

The historical selected consolidated statement of operations data for the years 2012, 2011 and 2010, and the selected consolidated balance sheet data at December 31, 2012 and 2011, have been derived from our audited consolidated financial statements set forth elsewhere in this annual report. The selected consolidated statement of operations data for the years 2009 and 2008, and the selected consolidated balance sheet data at December 31, 2010, 2009 and 2008, have been derived from our previously reported audited consolidated financial statements (published by Stratasys, Inc.), which are not included in this annual report. The selected financial data should be read in conjunction with our consolidated financial statements and accompanying notes and Operating and Financial Review and Prospects appearing in Item 5 of this annual report, and are qualified entirely by reference to such consolidated financial statements. Our historical results set forth herein are not necessarily indicative of our future results.

(in thousands, except per share data)	Year Ended December 31,				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Net sales	$ 215,244	$ 155,894	$ 117,844	$ 98,975	$ 124,495
Gross profit	109,911	82,404	56,086	46,384	66,412
Research and development expense	19,659	14,360	9,755	7,737	8,973
Selling, general and administrative expense	73,130	39,038	32,863	32,823	36,843
Operating income	17,122	29,006	13,468	5,824	20,596
Net income	8,823	20,626	9,370	4,116	13,615
Net income attributable to Stratasys Ltd.	8,491	20,626	9,370	4,116	13,615
Net income per basic share	0.39	0.98	0.46	0.20	0.66
Net income per basic share attributable to Stratasys Ltd.	0.37	0.98	0.46	0.20	0.66
Weighted average basic shares outstanding	22,812	21,133	20,579	20,236	20,676
Net income per diluted share	$ 0.37	$ 0.95	$ 0.44	$ 0.20	$ 0.65
Net income per diluted share attributable to Stratasys Ltd.	0.36	0.95	0.44	0.20	0.65
Weighted average diluted shares outstanding	23,776	21,653	21,130	20,268	21,079
Balance Sheet Data:					
Working capital	$ 228,851	$ 64,086	$ 60,196	$ 82,838	$ 63,296
Total assets	1,731,513	221,770	178,460	153,137	147,743
Long term debt	---	---	---	---	---
Equity	$ 1,572,156	$ 183,311	$ 152,282	$ 129,583	$ 122,562

In addition to the audited consolidated financial data presented above, we also present below unaudited pro forma combined statement of operations data for our company for each of the years ended December 31, 2012 and 2011 that give effect to the merger as if it had been completed on January 1, 2011. This data has been prepared consistent with SEC Regulation S-X, Article 11. For a more complete presentation of this data and an explanation of the underlying assumptions used in deriving it, please see the unaudited pro forma condensed combined statements of operations that are included in the Operating Results section of Operating and Financial Review and Prospects in Item 5 below.

(in thousands, except per share data)	Year Ended December 31,	
	2012	2011
	Pro Forma (unaudited)	
Statement of Operations Data*:		
Net sales	$ 359,054	$ 276,990
Gross profit	163,923	113,039
Research and development expense	36,923	31,934
Selling, general and administrative expense	141,232	104,928
Operating loss	(14,232)	(23,823)
Net loss	(21,515)	(30,853)
Net loss attributable to Stratasys Ltd.	(21,577)	(30,853)
Net loss per basic share	(0.58)	(0.84)
Net loss per basic share attributable to Stratasys Ltd.	(0.58)	(0.84)
Weighted average basic shares outstanding	36,987	36,577
Net loss per diluted share	$ (0.58)	$ (0.84)
Net loss per diluted share attributable to Stratasys Ltd.	(0.58)	(0.84)
Weighted average diluted shares outstanding	36,987	36,577

*Because the audited balance sheet data (and our audited consolidated balance sheet appearing in our consolidated financial statements elsewhere in this annual report) as of December 31, 2012 already give effect to the merger, we are not providing pro forma balance sheet data as of December 31, 2011 or December 31, 2012.

B. Capitalization and Indebtedness.

Not Applicable.

C. Reasons for the Offer and Use of Proceeds.

Not Applicable.

D. Risk Factors.

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

Risks related to our business and financial condition

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

We derive most of our revenues from the sale of additive manufacturing systems and related consumables. The markets in which we operate are subject to rapid and substantial innovation and technological change. A variety of technologies compete against one another for market share, which is, in part, driven by technological advances and end-user requirements and preferences, as well as the emergence of new standards and practices. Our ability to compete in these markets depends, in large part, on our success in enhancing our existing products and developing new additive manufacturing systems and new consumables. We believe that to remain competitive we must continuously enhance and expand the functionality and features of our products and technologies. However, there is a risk that we may not be able to:

- enhance those existing products and technologies;
- develop new products and technologies that address the increasingly sophisticated and varied needs of prospective end-users, particularly with respect to the physical properties of consumables;
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis;
- develop products that are cost-effective or that otherwise gain market acceptance; or
- adequately protect our intellectual property as we develop new products and technologies.

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

If we are not successful in integrating our constituent companies, the benefits of the merger will not be fully realized and the market price of our ordinary shares may be negatively affected.

The merger has involved (and will continue to involve, in the near future) the integration of significant aspects of the operations of two companies that have previously operated independently with principal offices in two distinct locations and geographically diverse organizations. As a combined company we now have approximately 1,130 employees in a total of 17 facilities around the world. While we expect that the merger will result in benefits arising out of the integration of the constituent companies operations, due to legal restrictions, we conducted only limited integration planning prior to the merger. The ongoing difficulties of coordinating our operations include:

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

As a result of these and other factors, we may not successfully integrate the businesses of the merged companies in a timely manner, or at all. Furthermore, we may not realize the benefits and synergies of the merger to the extent, or in the timeframe, anticipated. It is also possible that such integration and coordination arrangements could lead to the loss of members of our senior executive team, diversion of the attention of management, or the disruption or interruption of, or the loss of momentum in, our ongoing business. Any of these possible outcomes could affect our ability to maintain our research and development, supply, distribution, marketing, customer and other relationships, any of which could adversely affect our business and financial results following the merger. The occurrence of such negative results could adversely affect the market price of our ordinary shares.

Our operating results and financial condition may fluctuate.

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

- the degree of market acceptance of our products;
- the mix of products that we sell during any period;
- long sales cycles;
- changes in the amount that that we spend to develop, acquire or license new products, consumables, technologies or businesses;
- changes in the amounts that we spend to promote our products and services;
- changes in the cost of satisfying our warranty obligations and servicing our installed base of systems;
- delays between our expenditures to develop and market new or enhanced systems and consumables and the generation of sales from those products;
- development of new competitive systems by others;
- changes in accounting rules and tax laws;
- the geographic distribution of our sales;
- our responses to price competition;
- general economic and industry conditions that affect end-user demand and end-user levels of product design and manufacturing;
- changes in interest rates that affect returns on our cash balances and short-term investments;
- changes in dollar-shekel and dollar-Euro exchange rates that affect the value of our net assets, revenues and expenditures from and/or relating to our activities carried out in those currencies;
- failure of a development partner to continue supporting certain product development efforts it is funding; and
- the level of research and development activities by our company.

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

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

Our success depends upon the continued service and performance of our senior management and other key personnel, especially during the integration phase of the two pre-merger businesses. Our senior executive team is critical to the management of our business and operations, as well as to the development of our strategy, especially during the initial period following the merger. The loss of the services of any members of our senior executive team could delay or prevent the successful implementation of our initial growth strategy, or our initial commercialization of new applications for our systems or other products, or could otherwise adversely affect our ability to manage our company effectively and carry out our business plan. Members of our senior management team may resign at any time. High demand exists for senior management and other key personnel in the additive fabrication industry, and there can be no assurance that we will be able to retain such personnel.

Our growth and success, especially in the initial stages following the merger, will also depend on our ability to attract and retain additional highly qualified scientific, technical, sales, managerial and finance personnel. Our employees might experience uncertainty about their future roles with our company now that the merger has been consummated, which might adversely affect our ability to retain them. Each of our constituent companies experienced, and we expect to continue to experience, intense competition for qualified personnel. While we intend to continue to provide competitive compensation packages to attract and retain key personnel, some of our competitors for these employees have greater resources and more experience, making it difficult for us to compete successfully for key personnel. If we cannot attract and retain sufficiently qualified technical employees for our research and development and manufacturing operations, we may be unable to achieve the synergies expected from the merger or to develop and commercialize new products or new applications for existing products. Furthermore, possible shortages of key personnel, including engineers, in the regions surrounding our Minnesota, New Hampshire or Israeli facilities could require us to pay more to hire and retain key personnel, thereby increasing our costs.

If the market for our products and services does not grow as expected, our revenues may stagnate or decline.

The marketplace for additive manufacturing is dominated by conventional methods that do not involve 3D printing technology. If the market does not broadly accept 3D printing as an alternative for prototype development and traditional manufacturing, or if it adopts 3D printing based on a technology other than the technologies we use, we may not be able to increase or sustain the aggregate level of sales of products and related materials and services that our two component companies enjoyed immediately prior to the merger, and our results of operations may be adversely affected as a result.

If our product mix shifts too far into lower margin products, our profitability could be reduced.

Sales of certain of our existing products have higher margins than others. For instance, our high-end systems and related consumables yield a greater gross margin than our entry-level systems. Since we started shipping entry-level products, our sales of those products have grown and we expect them to continue to account for a growing percentage of the number of systems that we will sell following the merger. If our product mix shifts too far into lower margin products, and we are not able to sufficiently reduce the engineering, production and other costs associated with those products or substantially increase the sales of those products, our profitability could be reduced.

Declines in the prices of our products may adversely affect our financial results.

Our business is subject to price competition. Such price competition may adversely affect our ability to maintain profitability, especially during periods of decreased demand. If our business is not able to offset price reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, including as a result of the merger, those price reductions would adversely affect our operating results.

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

We compete for end-users with a wide variety of producers of systems that create models, prototypes, other 3D objects and end-use parts as well as producers of materials and services for these systems. Our principal competition currently consists of other manufacturers of systems for prototype development and customized manufacturing processes, including 3D Systems Corporation, CMET, EOS Optronics GmbH and EnvisionTEC GmbH. In addition, there is a risk that consolidation among companies in the 3D printing industry could accelerate, whether in the form of acquisitions by, or strategic partnerships or marketing partnerships with, companies that may have significantly greater resources than we have.

Some of our current and potential competitors have longer operating histories and more extensive name recognition than we have and may also have greater financial, marketing, manufacturing, distribution and other resources than we have. Current and future competitors may be able to respond more quickly to new or emerging technologies and changes in end-user demands and to devote greater resources to the development, promotion and sale of their products than we can. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable or less competitive. In addition, if these competitors develop products with similar or superior functionality to our products at prices comparable to or lower than ours, we may need to decrease the prices of our products in order to remain competitive. We cannot assure you that we will be able to maintain or enhance our current competitive position or continue to compete successfully against current and future sources of competition.

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

We sell substantially all of the consumables that our customers use in our systems. Furthermore, we attempt to protect against replication of our consumables through patents and trade secrets and provide that our warranties are valid only if customers use consumables that we certify. However, other manufacturers could increase their development of consumables that could be used successfully in our systems and could sell them to owners of our systems in place of our proprietary materials. To the extent that our end-users purchase consumables from third parties, we could experience reduced sales of our consumables and could be forced to reduce prices for our proprietary consumable materials, either of which would impair our overall revenues and profitability.

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

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

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

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

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

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

We expect most of our sales of our products to be made through our network of resellers and independent sales agents. We rely heavily on these resellers and sales agents to sell those products to end-users in their respective geographic regions. Furthermore, we rely on resellers to service our products. These resellers and sales agents are generally not precluded from selling our competitors products in addition to ours. In addition, they may not be effective in selling our products or servicing our end-users. Further, if a significant number of these resellers and sales agents were to terminate their relationship with us or otherwise fail or refuse to sell our products, we may not be able to find replacements that are as qualified or as successful. If these resellers and independent sales agents do not perform as anticipated or if we are unable to find qualified and successful replacements, our sales will suffer, which would have a material adverse effect on our revenues and operating results. Additionally, a default by one or more resellers that have a significant receivables balance could have an adverse financial impact on our financial results.

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

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

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

All assembly and testing of our PolyJet systems take place at our Rehovot, Israel facility and all production of our resin consumables takes place at our Kiryat Gat, Israel facility. We perform the final assembly and testing of our FDM systems and manufacture filament for them at our facilities in Eden Prairie, Minnesota. Our Solidscape subsidiary manufactures its 3D printers at a single facility in Merrimack, New Hampshire. Because of our reliance on all of these production facilities, a disruption at any of those facilities could materially damage our ability to supply 3D printers, other systems or consumable materials to the marketplace in a timely manner. Depending on the cause of the disruption, we could also incur significant costs to remedy the disruption and resume product shipments. Accordingly, any such disruption could result in a material adverse effect on our revenue, results of operations and earnings, and could also potentially damage our reputation.

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

In connection with the accounting for the merger, we recorded a significant amount of goodwill $797.1 million and other intangible assets $490.2 million, reflecting the preliminary estimated fair value of the intangibles of Objet Ltd., consisting primarily of its developed technology, customer relationships, in-process research and development, and trade name). In addition, as of December 31, 2012, the book value of all other goodwill and other intangible assets was approximately $49.6 million. Under U.S. GAAP, we must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Such impairment may result from one of a number of possible causes, including invalidation of acquired patents, trademarks or other intellectual property or the impairment of other intangible assets due to litigation, obsolescence, competitive factors, lower than expected revenue and operating results or other reasons. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect our results of operations and shareholders equity in future periods.

Global economic, political and social conditions have adversely impacted sales of our constituent companies, and may once again affect us in the future.

The uncertain direction and relative strength of the global economy, difficulties in the financial services sector and credit markets, continuing geopolitical uncertainties and other macroeconomic factors all affect spending behavior of potential end-users of our products and services. The prospects for economic growth in the United States and other countries remain uncertain, and may cause end-users to further delay or reduce technology purchases. In particular, a substantial portion of our sales are made to customers in countries in Europe, which have been and may continue to be affected by a significant economic crisis. These and other macroeconomic factors had an adverse impact on the sales of our products and services in late 2008, 2009 and, to a lesser degree, 2010, leading to reduced revenues from sales in 2009 relative to 2008, and longer sales cycles. While our component companies saw an improvement in revenues from sales of their systems and consumables in 2010 and 2011, there can be no assurance that such improvement is sustainable particularly if global economic conditions remain volatile for a prolonged period or if European economies experience further disruptions. The global financial crisis affecting the banking system and financial markets has resulted in a tightening of credit markets, lower levels of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. These conditions may make it more difficult for our end-users to obtain financing.

We face risks that may arise from financial difficulties experienced by our end-users, suppliers and distributors, which may be exacerbated by continued weakness in the global economy, including:

- reduced end-user demand for products and reduced manufacturing activity levels;
- distributors and end-users may be unable to obtain credit financing to finance purchases of 3D printers, 3D production systems, consumables or other products;
- suppliers may be unable to obtain credit financing to finance purchases of sub-assemblies used to build components of products or purchases of raw materials to produce consumables;
- end-users or distributors may face financial difficulties or may become insolvent, which could lead to our inability to obtain payment for our products; and
- key suppliers of raw materials, finished products or components used in our products and consumables may face financial difficulties or may become insolvent, which could lead to disruption in the supply of systems, consumables or spare parts to our end-users.

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

We expect to derive a substantial percentage of our sales from international markets. On a pro forma basis, in 2012 and 2011, we derived 49% and 51%, respectively, of our combined sales from countries outside of the United States. Accordingly, we face significant operational risks from doing business internationally, including:

- fluctuations in foreign currency exchange rates;
- potentially longer sales and payment cycles;
- potentially greater difficulties in collecting accounts receivable;
- potentially adverse tax consequences;
- reduced protection of intellectual property rights in certain countries, particularly in Asia and South America;
- difficulties in staffing and managing foreign operations;
- laws and business practices favoring local competition;
- costs and difficulties of customizing products for foreign countries;
- compliance with a wide variety of complex foreign laws, treaties and regulations;
- tariffs, trade barriers and other regulatory or contractual limitations on their ability to sell or develop their products in certain foreign markets; and
- being subject to the laws, regulations and the court systems of many jurisdictions.

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

As part of our growth strategy, we may acquire or make investments in other businesses, patents, technologies, products or services, and our failure to do so successfully may adversely affect our competitive position, liquidity, financial results, stock price or shareholder value.

As part of our growth strategy, we expect to evaluate acquisitions or investments to expand our suite of products and services. Furthermore, even if we are able to identify a suitable acquisition or investment, we may not be able to consummate any such transaction if we lack sufficient resources to finance the transaction on our own and cannot obtain financing at a reasonable cost. Our growth could be hampered if we are unable to identify suitable acquisitions and investments or agree on the terms of any such acquisition or investment.

Our acquisition transactions may not succeed in generating the intended benefits and may, therefore, adversely affect shareholder value or our financial results.

In order to complete an acquisition, we may have to use cash, issue new equity securities with dilutive effects on existing shareholders, take on new debt, assume contingent liabilities or amortize assets or expenses in a manner that might have a material adverse effect on our balance sheet, results of operations or liquidity. We will also be required to record certain acquisition-related costs and other items as current period expenses, which would have the effect of reducing our reported earnings in the period in which an acquisition is consummated. We will also be required to record any post-closing goodwill or other long-lived asset impairment charges in the period in which they occur, which could result in a significant charge to our earnings in that period.

Furthermore, even if an acquisition or investment is successfully financed and consummated, the integration of a new business or technology into our business may result in unforeseen difficulties and expenditures, including:

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

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

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

Our systems may contain undetected defects or errors when first introduced or as enhancements are released that, despite testing, are not discovered until after a product has been used. This could result in delayed market acceptance of those products, claims from distributors, end-users or others, increased end-user service and support costs and warranty claims, damage to our reputation and business, or significant costs to correct the defect or error. We may from time to time become subject to warranty or product liability claims that could lead to significant expenses as we need to compensate affected end-users for costs incurred related to product quality issues.

We may be subject to product liability claims in respect of our products, which could result in material expenses, diversion of management time and attention, and damage to our reputation.

The sale and support of our products entail the risk of product liability claims. This risk may be heightened when we sell products into certain markets, such as the medical and dental markets. In addition, certain hazardous chemicals used in the manufacture of certain of our products may expose us to a heightened risk of product liability claims. Specifically, those hazardous chemicals fall within three different categories (with several of the chemicals falling within multiple categories): irritants, harmful chemicals and chemicals dangerous for the environment.

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

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

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

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

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

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

We own buildings in Eden Prairie, Minnesota, which we use to conduct our FDM manufacturing and assembly operations, as well as our manufacturing facility in Kiryat Gat, Israel. Ownership of these buildings and facilities may adversely affect our ability to move some or all of those operations to other locations that may be more favorable. If we were to move any of those operations to other locations, we may have difficulty selling or leasing the property that we vacate. This could result in an impairment charge, which could have a material adverse effect on our results of operations in one or more periods.

If we do not generate sufficient future taxable income, we may be required to recognize deferred tax asset valuation allowances.

The value of our deferred tax assets depends, in part, on our ability to use them to offset taxable income in future years. If we are unable to generate sufficient future taxable income in the U.S. and certain other jurisdictions, or if there are significant changes in tax laws or the tax rates or the period within which the underlying temporary differences become taxable or deductible, we could be required to record valuation allowances against our deferred tax assets. Such allowances would result in an increase in our effective tax rate and have a negative impact on our operating results. If our estimated future taxable income is increased, the valuation allowances for deferred tax assets may be reduced. These changes may also contribute to the volatility of our consolidated financial results.

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

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

We are subject to extensive environmental, health and safety laws and regulations that could have a material adverse effect on our business, financial condition and results of operations.

Our operations use chemicals and produce waste materials. We are subject to extensive environmental, health and safety laws and regulations in multiple jurisdictions governing, among other things, the use, storage, registration, handling and disposal of chemicals and waste materials, the presence of specified substances in electrical products, chemicals, air, water and ground contamination, air emissions and the cleanup of contaminated sites, including any contamination that results from spills due to our failure to properly dispose of chemicals and waste materials. Under these laws and regulations, we could also be subject to liability for improper disposal of chemicals and waste materials resulting from the use of our 3D printers and accompanying materials by end-users. These laws and regulations could potentially require the expenditure of significant amounts for compliance and/or remediation. If our operations fail to comply with those laws or regulations, we may be subject to fines and other civil, administrative or criminal sanctions, including the revocation of permits and licenses necessary to continue our business activities. In addition, we may be required to pay damages or civil judgments in respect of third-party claims, including those relating to personal injury (including exposure to hazardous substances that we use, store, handle, transport, manufacture or dispose of), property damage or contribution claims. Some environmental laws allow for strict, joint and several liability for remediation costs, regardless of comparative fault. We may be identified as a potentially responsible party under such laws. Such developments could have a material adverse effect on our business, financial condition and results of operations.

We are subject to environmental laws due to the import and export of our products, which could subject us to compliance costs and/or potential liability in the event of non-compliance.

The export of our products internationally from our production facilities subjects us to environmental laws and regulations concerning the import and export of chemicals and hazardous substances such as the United States Toxic Substances Control Act, or TSCA, and the Registration, Evaluation, Authorization and Restriction of Chemical Substances, or REACH. These laws and regulations require the testing and registration of some chemicals that we ship along with, or that form a part of, our 3D printers and other products. If we fail to comply with these or similar laws and regulations, we may be required to make significant expenditures to reformulate the chemicals that we use in our products and materials or incur costs to register such chemicals to gain and/or regain compliance. Additionally, we could be subject to significant fines or other civil and criminal penalties should we not achieve such compliance.

We are currently subject to a number of lawsuits. These and any future lawsuits to which we become subject may have a material adverse impact on our capitalization, business and results of operations.

We are currently party to three actions by former employees seeking the issuance of options of Objet (which, following the merger, would be exercisable for our ordinary shares). The most significant of these actions relates to a demand by a former employee, based on an alleged undertaking Objet had made, that Objet issue him an option that would allow him to maintain an equity interest of 1.45% in Objet and reimburse salary reductions he had suffered. This plaintiff has further demanded compensation on account of alleged wrongful termination. This action is currently ongoing and is being litigated in an Israeli labor court.

We were furthermore notified, in March 2013, of two lawsuits purportedly filed in an Israeli district court against us by four current or former minority shareholders and former directors of our company. The lawsuits purportedly demand that we amend the capitalization table of our company 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. The lawsuits also name as defendants certain of our directors, officers and shareholders who previously held those positions at Objet.

In connection with the merger, Stratasys, Inc. was named as a defendant in three purported class action complaints, filed in Minnesota, Delaware and Minnesota, respectively, in which it was alleged that the Stratasys, Inc. directors breached their fiduciary duties owed to Stratasys, Inc. stockholders, and that Stratasys, Inc., as well as Holdco and Merger Sub, also as named defendants, knowingly aided and abetted those breaches. Objet was also named as a defendant in one such action. The complaints sought, among other things, certification of the cases as class actions, 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. One of the actions has subsequently been voluntarily withdrawn. We and the other defendants have entered into a memorandum of understanding, or MOU, in which the plaintiffs in the other two actions agreed in principle to release and settle all claims against us in connection with the merger agreement. However, if the conditions set forth in the MOU are not satisfied or the courts fail to approve the settlement, the litigation will proceed, in which case we intend to continue to vigorously defend these actions.

We can provide no assurance as to the outcome of these or any future matters or actions, and any such matters or actions may result in judgments against us for significant damages and/or the issuance of options to acquire shares of our capital stock, the exercise of which would result in dilution to our shareholders. Resolution of these matters can be prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in litigation and other proceedings. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements. Regardless of the outcome, litigation has resulted in the past, and may result in the future, in significant legal expenses and require significant attention and resources of management. As a result, current and any future litigation could result in losses, damages and expenses that have a material adverse effect on our business.

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

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

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

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, in August 2012 the SEC promulgated final rules regarding disclosure of the use of certain minerals, known as conflict minerals, which are mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding a manufacturer s efforts to prevent the sourcing of such minerals and metals produced from those minerals. These conflict minerals are commonly referred to as 3TG and include tin, tantalum, tungsten, and gold. The new rules will require us to engage in due diligence efforts for the 2013 calendar year, with initial disclosures required no later than May 31, 2014, and subsequent disclosures required no later than May 31 of each following year. We expect that we will incur additional costs and expenses, which may be significant, in order to comply with these rules, including for (i) due diligence to determine whether conflict minerals are necessary to the functionality or production of any of our products and, if so, verify the sources of such conflict minerals; and (ii) any changes that we may desire to make to our products, processes, or sources of supply as a result of such diligence and verification activities. Since our supply chain is complex, ultimately we may not be able to sufficiently verify the origins for any conflict minerals and metals used in our products through the due diligence procedures that we implement, which may adversely affect our reputation with our customers, shareholders, and other stakeholders. In such event, we may also face difficulties in satisfying customers who require that all of our products are certified as conflict mineral free. If we are not able to meet such requirements, customers may choose not to purchase our products, which could adversely affect our sales and the value of portions of our inventory. Further, there may be only a limited number of suppliers offering conflict free minerals and, as a result, we cannot be sure that we will be able to obtain metals, if necessary, from such suppliers in sufficient quantities or at competitive prices. Any one or a combination of these various factors could harm our business, reduce market demand for our products, and adversely affect our profit margins, net sales, and overall financial results.

Risks related to an investment in our ordinary shares

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

We have entered into a Registration Rights and Lock-Up Agreement with shareholders who held more than 90% of our issued and outstanding ordinary shares prior to the merger, and these shares now constitute approximately -38. 7% of our issued and outstanding shares as of February 15, 2013. The Registration Rights and Lock-Up Agreement provides, other than with respect to 7.5% of the ordinary shares owned by these shareholders as of December 1, 2012, that these shareholders will not sell or otherwise transfer their ordinary shares until after June 1, 2013, six months after the closing of the merger. It also requires us, at the request of the holders of 35% of the then-outstanding registrable

securities under that agreement and subject to certain limitations, to register for resale and to list on NASDAQ ordinary shares that they seek to include in the registration. If the shareholders who are party to the Registration Rights and Lock-Up Agreement sell significant amounts of our ordinary shares soon after June 1, 2013, or demand registration of their shares, the market price of our ordinary shares could decline. The existence of these registration rights as well as any sales thereunder may also make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through equity offerings.

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

The market price of our ordinary shares since the merger, and the market price of the common stock of our Stratasys, Inc. subsidiary prior to the merger, have been subject to substantial fluctuation. During 2011, the common stock of Stratasys, Inc. traded at prices ranging between $18.00 and $55.43, and, during 2012, at prices ranging between $29.74 and $41.75 (up until the announcement of the merger on April 16) and between $41.64 and $79.25 (from the announcement of the merger on April 16 until the closing of the merger on December 1). Following the merger, our ordinary shares have traded at prices ranging from $65.62 to $92.30 (through February 15, 2013). It is likely that the price of our ordinary shares will continue to be subject to substantial fluctuation regardless of our operating results or financial condition due to a number of factors, including:

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

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

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

If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our ordinary shares, the price of the ordinary shares could decline.

The trading market for our ordinary shares relies in part on the research and reports that equity research analysts publish about our company and its business. We do not have control over these analysts and do not have commitments from them to write research reports about us. The price of our ordinary shares could decline if one or more equity research analysts downgrades the ordinary shares or if those analysts issue other unfavorable commentary or cease publishing reports about our company or our business.

Our initial board of directors is serving for an initial term of two years, and during that period shareholders will be able to remove any director, elect directors or otherwise change the composition of the board of directors only under very limited circumstances.

Under our amended and restated articles of association, or the amended articles, which govern the rights of our shareholders, our board of directors is separated into two classes until December 1, 2014, the second anniversary of the merger. Such two-year period is referred to as the initial term. Four class A directors, including one external director, have been appointed by the former Objet Ltd. board, and four class B directors have been appointed by the former Stratasys, Inc. board. A ninth director, who is also a class B director and an external director, has been appointed by the former Stratasys, Inc. board, subject to the approval of the former Objet Ltd. board. All class A directors and class B directors will serve as directors during the entire initial term, except for external directors who will serve for terms of three years. Accordingly, during the initial term, we will not hold an annual general meeting of shareholders for the purpose of electing directors.

During the initial term, a director may be removed only either for cause by the unanimous vote of the other directors of his or her class, or under certain other limited circumstances under the Companies Law. The provision of the amended articles establishing the classified board of directors during the initial term can be amended only by the unanimous vote of the directors and the approval of 75% of the voting power of our shareholders. Furthermore, the provision of the amended articles regarding removal of directors may be amended only upon the approval of 75% of the voting power of our shareholders. Accordingly, it is unlikely that holders of our ordinary shares will be able to remove any directors, elect any directors (except for the ratification of external director appointments) or otherwise change the composition of our board of directors during the initial term, even if such holders possess a majority of the voting power of our shareholders.

Certain significant shareholders of our company may exert a degree of control in a manner that conflicts with the interests of other shareholders.

Current significant holders of ordinary shares may have interests that are different than or adverse to our other shareholders. Based on public filings with the SEC, we believe that our three largest shareholders (after disregarding shareholders whose beneficial ownership covers the same shares beneficially owned by other shareholders owning a higher percentage), hold approximately 12.59%, 7.77% and 7.11% of our issued and outstanding ordinary shares. Based on their share ownership and the simple majority vote of shares present in person or by proxy that is sufficient for the approval of most actions at any shareholder meeting, those shareholders may be able to exercise a certain degree of control over certain matters requiring shareholder approval. Those matters include the election of directors (following the expiration of the initial two-year term of the initial directors following the merger), amendment of our articles of association and approval of significant corporate transactions, subject to rules requiring the approval of a special majority among non-interested shareholders in certain situations. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult without the support of those significant shareholders, including transactions in which a non-significant shareholder might otherwise receive a premium for its shares over the then-current market price.

Raising additional capital by issuing securities may cause dilution to our shareholders.

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

- our degree of success in capturing a larger portion of the additive manufacturing market;
- the costs of establishing or acquiring sales, marketing and distribution capabilities for our products;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our issued patents and defending intellectual property-related claims;
- the extent to which we acquire or invest in businesses, products or technologies and other strategic relationships; and
- the costs of financing unanticipated working capital requirements and responding to competitive pressures.

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

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

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

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

Under the Companies Law, dividends may only be paid out of our profits and other surplus funds (as defined in the Companies Law) as of the end of the most recent year or as accrued over a period of the most recent two years, whichever amount is greater, provided that there is no reasonable concern that payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event that we do not meet the profit and surplus funds criteria, we can seek the approval of an Israeli court in order to distribute a dividend. The court may approve our request if it is convinced that there is no reasonable concern that the payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Due to the acquisition method of accounting utilized for the merger under U.S. GAAP, pursuant to which we were deemed to have acquired Objet s assets, we will incur significant annual amounts of depreciation and amortization expense in respect of those assets (see Note 2 to our consolidated financial statements included elsewhere in this annual report for more information on the method of accounting for the merger). These significant annual expenses under U.S. GAAP might reduce or eliminate our profits and surplus funds as determined under the Companies Law, and, hence, may restrict our ability to pay dividends (absent court approval).

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

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

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

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

Our status as a foreign private issuer is subject to an annual review and test, and will be tested again as of June 28, 2013 (the last business day of our second fiscal quarter of 2013). If we lose our status as a foreign private issuer, we will no longer be exempt from such rules. Among other things, beginning on January 1, 2014, we would then be required to file periodic reports and financial statements as if we were a company incorporated in the U.S. The costs incurred in fulfilling these additional regulatory requirements could be substantial.

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

We are subject to the requirements of Section 404 of the Sarbanes-Oxley Act, or Section 404, which requires a company that is subject to the reporting requirements of the U.S. securities laws to conduct a comprehensive evaluation of its and its subsidiaries internal controls over financial reporting. To comply with this statute, we are required to document and test our internal control procedures, and beginning with the filing of our 2013 annual report in 2014, our management will be required to assess and issue a report concerning our internal controls over financial reporting. In addition, we expect that our independent registered public accounting firm will be required to issue an opinion on management s assessment of those matters pursuant to Section 404 and that these matters will first be tested in connection with the filing of our annual report to be filed with the SEC for the year ending December 31, 2013.

We need to prepare for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our management s report. However, the continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming. Furthermore, as our business continues to grow internationally, our internal controls will become more complex and will require significantly more resources and attention to ensure that they remain effective overall. Over the course of testing our internal controls, our management may identify material weaknesses or significant deficiencies, which may not be remedied in a timely manner to meet the deadline imposed by the Sarbanes-Oxley Act. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting, or if following the loss of our status as an emerging growth company, our independent registered public accounting firm identifies material weaknesses in our internal controls, investor confidence in our financial results may weaken, and our share price may suffer.

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

Generally, if for any taxable year, after applying certain look-through rules, 75% or more of our gross income is passive income, or at least 50% of the value of our assets are held for the production of, or produce, passive income, we may be characterized as a PFIC for U.S. federal income tax purposes. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rental and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. This characterization could result in adverse U.S. tax consequences to our shareholders who are U.S. taxpayers, including having gain realized on the sale of our ordinary shares being treated as ordinary income rather than capital gain income, and could result in punitive interest charges being applied to such sales proceeds. Rules similar to those applicable to dispositions apply to amounts treated as excess distributions.

Although we do not believe that we were a PFIC in 2012, we cannot assure you that the IRS will agree with that conclusion or that we will not become a PFIC in 2013 or in a subsequent year. The tests for determining PFIC status are applied annually, and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares. For a discussion of how we might be characterized as a PFIC and related tax consequences, please see Item 10.E, Additional Information Taxation - U.S. Federal Income Tax Considerations - Tax Consequences if We Are a Passive Foreign Investment Company.

Risks related to our intellectual property

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

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

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

our patents, and we may not be able to detect the unauthorized use of our proprietary technology or take appropriate steps to prevent such use. Any of the foregoing events would lead to increased competition and lower revenues or gross margins, which could adversely affect our operating results.

As our patents expire, additional competitors using our technology could enter the market, which could require us to reduce our prices for our products and result in a reduction of our market share. Competitors introduction of lower quality products using our technology could also negatively affect the reputation and image of our products in the marketplace.

Some of our patents have expired and others will expire in coming years. Upon expiration of those patents, our competitors may introduce products using the technology previously protected by the expired patents, which products may have lower prices than those of our products. To compete, we may need to reduce our prices for those products, which would adversely affect our revenues, margins and profitability. Additionally, the expiration of our patents could reduce barriers to entry into additive fabrication systems, which could result in the reduction of our sales and earnings potential. If competitors using technology previously protected by our expired patents were to introduce products of inferior quality, our potential customers may view our products negatively, which would have an adverse effect on our image and reputation and on our ability to compete with systems using other additive fabrication technologies.

We may be subject to alleged patent infringement claims.

Our products and technology, including the technology that we license from others, may infringe the intellectual property rights of third parties. Patent applications in the United States and most other countries are confidential for a period of time until they are published, and the publication of discoveries in scientific or patent literature typically lags actual discoveries by several months or more. As a result, the nature of claims contained in unpublished patent filings around the world is unknown to us, and we cannot be certain that we were the first to conceive inventions covered by our patents or patent applications or that we were the first to file patent applications covering such inventions. Furthermore, it is not possible to know in which countries patent holders may choose to extend their filings under the Patent Cooperation Treaty or other mechanisms. In addition, we may be subject to intellectual property infringement claims from individuals, vendors and other companies, including those that have acquired patents in the fields of 3D printing or consumable production for the sole purpose of asserting claims against us. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims could cause us to incur significant costs in responding to, defending and resolving such claims, and may prohibit or otherwise impair our ability to commercialize new or existing products. Any infringement by us or our licensors of the intellectual property rights of third parties may have a material adverse effect on our business, financial condition and results of operations.

Third-party claims of intellectual property infringement successfully asserted against us may require us to redesign infringing technology or enter into costly settlement or license agreements on terms that are unfavorable to us, prevent us from manufacturing or licensing certain of our products, subject us to injunctions restricting our sale of products and use of infringing technology, cause severe disruptions to our operations or the markets in which we compete, impose costly damage awards or require indemnification of our distributors and end-users. In addition, as a consequence of such claims, we may incur significant costs in acquiring the necessary third-party intellectual property rights for use in our products or developing non-infringing substitute technology. Any of the foregoing developments could seriously harm our business.

We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.

In connection with the enforcement of our intellectual property rights, the acquisition of third-party intellectual property rights or disputes related to the validity or alleged infringement of third-party intellectual property rights, including patent rights, we have been and may in the future be subject or party to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation, regardless of merit, can be costly and disruptive to our business operations by diverting attention and energies of management and key technical personnel, and by increasing our costs of doing business. We may not prevail in any such dispute or litigation, and an adverse decision in any legal action involving intellectual property rights, including any such action commenced by us, could limit the scope of our intellectual property rights and the value of the related technology. For example, in 2005 in settlement of prior patent litigation, Objet entered into a cross-licensing arrangement with 3D Systems Corporation, under which each party licensed certain patents of the other party, and Objet incurred royalty payment obligations (which have been paid in full based on Objet s net sales of printing equipment covered by the patents that it in-licensed).

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

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

This concern could manifest itself in particular with respect to our proprietary consumables that are used with our 3D printers and other systems. Portions of our proprietary consumables may not be afforded patent protection. Chemical companies or other producers of raw materials used in our consumables may be able to develop consumables that are compatible to a large extent with our systems, whether independently or in contravention of our trade secret rights and related proprietary and contractual rights. If such consumables are made available to owners of our 3D printers or other systems, and are purchased in place of our proprietary consumables, our revenues and profitability would be reduced and we could be forced to reduce prices for our proprietary consumables.

Risks related to operations in Israel

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

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

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

The rights of holders of our ordinary shares differ from those associated with stock of a U.S. company such as the common stock of Stratasys, Inc. prior to the merger.

We are organized under Israeli law, and the rights of our shareholders are governed by our articles of association, which provide for rights that are different from those of the holders of common stock of corporations organized in the State of Delaware. The rights conferred on shareholders of companies organized under the laws of these jurisdictions differ in important ways. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders, and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on matters such as amendments to a company s articles of association, increases in a company s authorized share capital, mergers and acquisitions and interested party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or

prevent the appointment of a director or executive officer in the company has a duty of fairness toward the corporation. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

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

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date on which a merger proposal is filed by each merging company with the Israel Registrar of Companies and at least 30 days have passed from the date on which the shareholders of both merging companies have approved the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, a tender offer for all of a company s issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital. Completion of the tender offer also requires approval of a majority of the offerees that do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company s outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, may, at any time within six months following the completion of the tender offer, petition an Israeli court to alter the consideration for the acquisition, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights.

Our amended and restated articles of association impose an additional barrier towards a merger or acquisition of our company, as they provide that our directors (other than external directors) are not subject to election for the first two years following the merger (i.e., not until our first annual general shareholder meeting following December 1, 2014), such that a potential acquiror cannot replace our board of directors at an annual general shareholder meeting until that time). This could prevent a potential acquiror from receiving board approval for an acquisition proposal that our board opposes.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions.

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

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

Our operations may be disrupted as a result of the obligation of management or key personnel to perform military service.

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

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

We report our financial results and most of our revenues are recorded in U.S. dollars. However, substantially all of the manufacturing, research and development expenses of our Israeli operations, as well as a portion of the cost of revenues, selling and marketing, and general and administrative expenses of our Israeli operations, are incurred in New Israeli Shekels. As a result, we are exposed to exchange rate risks that may adversely affect our financial results. If the New Israeli Shekel appreciates against the U.S. dollar or if the value of the New Israeli Shekel declines against the U.S. dollar at a time when the rate of inflation in the cost of Israeli goods and services exceeds the rate of decline in the relative value of the New Israeli Shekel, then the U.S. dollar cost of our operations in Israel would increase and our results of operations would be adversely affected. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation (if any) of the New Israeli Shekel against the U.S. dollar. The Israeli rate of inflation amounted to 1.6%, 2.2% and 2.7% for the years ended December 31, 2012, 2011 and 2010, respectively. If the U.S. dollar cost of our operations in Israel increases, the dollar-measured results of those operations will be adversely affected. Our Israeli operations also could be adversely affected if we are unable to effectively hedge against currency fluctuations in the future. The appreciation (devaluation) of the New Israeli Shekel in relation to the U.S. dollar amounted to 2.1%, (7.7)% and 6.0% for the years ended December 31, 2012, 2011 and 2010, respectively.

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

From time to time we engage in currency hedging activities. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel or from fluctuations in the relative values of the U.S. dollar and other foreign currencies in which we transact business, and may result in a financial loss, such as Objet experienced in 2011. For further information, please see Item 5. Operating and Financial Review and Prospects below in this annual report.

Estimating our income tax rate is complex and subject to uncertainty. Our estimates are furthermore based on the assumption that we will continue to receive Israeli government tax benefits in respect of our Israeli operations. If we do not meet several conditions for receipt of those benefits, they may be terminated or reduced in the future, which would impact our income tax rate and increase our costs.

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

One important assumption that goes into calculation of our tax rate is the tax benefit that we receive in respect of some of our operations in Israel, referred to as Approved Enterprises and Benefited Enterprises, under the Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law. Based on an evaluation of the relevant factors under the Investment Law, including the level of foreign (that is, non-Israeli) investment in the company, we have determined that our effective tax rate to be paid with respect to all Israeli operations under these benefit programs is 7 - 9%, based on the current balance of activity between our Rehovot, Israel and Kiryat Gat, Israel facilities and the available level of benefits under the law. If we do not meet the requirements for maintaining these benefits, they may be reduced or cancelled and the relevant operations would be subject to Israeli corporate tax at the standard rate, which is currently set at 25% for 2012 and onwards. In addition to being subject to the standard corporate tax rate, we could be required to refund any tax benefits that we have already received, plus interest and penalties thereon. Even if we continue to meet the relevant requirements, the tax benefits that our current Approved Enterprise and Benefited Enterprise receive may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we pay would likely increase, as all of our operations would consequently be subject to corporate tax at the standard rate, which may cause our global tax rate to be materially different than our estimates and could adversely affect our results of operations. Additionally, if we increase our activities outside of Israel, for example, via acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefit programs, and that could also adversely affect our global tax rate and our results of operations.

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Certain Israeli government grants that Objet received for certain of its research and development activities may restrict our ability to transfer manufacturing operations or technology outside of Israel, and failure to satisfy the conditions of those grants with respect to such transfers may require us to pay penalties.

Objet s research and development efforts were financed in part, in the past, through grants that Objet received from Israel s Office of the Chief Scientist of the Ministry of Industry, Trade and Labor, or OCS. Through 2006, Objet received approximately $1.5 million, which it repaid in its entirety (including interest thereon) by the end of 2007. Notwithstanding the full repayment of these OCS grants, we nevertheless must continue to comply with the requirements of the Israeli Law for the Encouragement of Industrial Research and Development, 1984, and related regulations, or the Research Law, with respect to those past grants. When a company develops know-how, technology or products using OCS grants, the terms of these grants and the Research Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel, without the prior approval of the OCS. Therefore, if aspects of our technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of know how or manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals. Furthermore, the OCS may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel.

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

ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

Our legal and commercial name is Stratasys Ltd., and we are the product of the 2012 merger of two leading additive manufacturing companies, Stratasys, Inc. and Objet Ltd. Stratasys, Inc. was incorporated in Delaware in 1989, and Objet Ltd. was incorporated in Israel in 1998, initially under the name Objet Geometries Ltd. and subsequently, from 2011, under the name Objet Ltd. On December 1, 2012, the two companies completed a merger, which we refer to as our merger, pursuant to which Stratasys, Inc. became an indirect, wholly-owned subsidiary of Objet Ltd., and Objet Ltd. changed its name to Stratasys Ltd. Also, as part of that transaction, the ordinary shares of Stratasys Ltd. were listed on the NASDAQ Global Select Market under the trading symbol SSYS , in place of the listing of the common stock of Stratasys, Inc., which had also traded under that symbol.

We have dual headquarters. One of our two principal places of business is located at 7665 Commerce Way, Eden Prairie, Minnesota, and our telephone number there is (952) 937-3000. Our registered office and our other principal place of business is located at 2 Holtzman Street, Science Park, P.O. Box 2496, Rehovot 76124, Israel, and our telephone number at that office is (+972)-74-745-4314. Our agent in the United States is S. Scott Crump, our Chairman of the Board, whose address is c/o Stratasys Inc. at the address of our Eden Prairie, Minnesota headquarters. Our World Wide Web address is www.stratasys.com. The information contained on that web site (or on our other web sites, including www.objet.com) is not a part of this annual report. As an Israeli company, we operate under the provisions of Israel s Companies Law 5759-1999.

In 2012, 2011 and 2010, our capital expenditures amounted to $15.1 million, $55.7 million and $9.1 million, respectively, of which $12.1 million, $12.8 million and $7.8 million, respectively, related to the purchase of fixed assets for manufacturing or engineering development equipment, tooling, leasehold improvements and the acquisition of computer systems and software applications , with the balance related primarily to the purchase of intangible assets, including capitalized software. These expenditures included, in the case of 2011, $39.1 million in cash paid in the acquisition of Solidscape, Inc., a manufacturer of high precision 3D printers and a proven leader in investment casting applications that require ultra-fine feature detail.

Our principal capital expenditures currently in progress are for facility expansion, research and development, manufacturing equipment and information technology, for both our Rehovot, Israel and Eden Prairie, Minnesota headquarters. These expenditures are being financed internally from working capital.

B. Business overview

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, including affordable desktop 3D printers for idea and design development, various systems for rapid prototyping, or RP, and large production systems for direct digital manufacturing, or DDM. We also develop, manufacture and sell materials for use with our systems and provide 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 have more than 1,100 employees and hold more than 500 granted or pending additive manufacturing patents globally.

AM, which is also referred to as 3D printing, is transforming prototype development manufacturing processes, and is displacing traditional manufacturing, often referred to as subtractive manufacturing, methodologies such as metal extrusion, computer-controlled machining and manual modeling techniques. With respect to product design and prototype development, 3D printing significantly improves the design process, reduces the time required for product development and facilitates creativity, while keeping the entire design process in-house. 3D printing also enables direct manufacture of parts that are subsequently incorporated into a user s end product. In addition, manufacturers are increasingly using 3D printing systems to produce manufacturing tools and fixtures that aid in their production and assembly processes.

We believe that our merger created an AM industry leader. Specifically, given the large portfolio of AM solutions our combined company offers, we believe that we are able to provide customers with a broad array of solutions by offering systems that produce parts with a wide range of capabilities and materials. We also believe that our merger brings together two companies featuring technology leadership within the AM industry. Stratasys, Inc. pioneered fused deposition modeling, or FDM, technology, and Objet Ltd. pioneered 3D printing with PolyJet-based technology. Our combined marketing and sales capabilities, featuring more than 260 resellers and independent sales agent entities around the world, also provide us with extensive geographic reach. That, together with the broader range of products offering complementary functionality the combined company can offer, should, we believe, create opportunities to cross-sell new product lines into our combined installed base and to expand our access to new customers across multiple industries. Furthermore, we expect that our competitive position will improve due to the significant increase in scale and more comprehensive reach resulting from the merger. We also believe that our financial performance will benefit from merger-related revenue synergies and projected tax savings.

Our wide range of solutions, based on our proprietary AM technologies and production materials, enhance the ability of designers, engineers and manufacturers to:

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

As of December 31, 2012, our combined companies had sold more than 29,000 systems. Our active installed base of systems provides the basis for recurring revenues from the sale of resin and plastic consumables and the provision of related services. Our systems are deployed at companies in a wide range of industries, including a number of Fortune 100 companies. We provide products and services to our global customer base through our offices in Israel, the United States, Germany, Italy, Japan, China and Hong Kong, as well as through our worldwide network of more than 260 agents and resellers.

Industry overview

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

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

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

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

We expect that the adoption of 3D printing will continue to increase over the next several years, in terms of both 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), as well as increased availability of 3D scanners. We also believe that increased market adoption of 3D printing will be facilitated by continued improvements in 3D printing technology and greater affordability of entry-level systems.

Stratasys solutions

Range of solutions

We offer a broad range of systems, consumables and services for the AM market. Our solutions allow our end-users to print 3D objects that enhance their ability to visualize, verify and communicate product designs, thereby improving the design process and reducing time-to-market. Our systems create visual aids for concept modeling and functional prototyping to test fit, form and function, permitting rapid evaluation of product designs. Using presentation models developed with our systems, designers and engineers can typically conduct design reviews and identify potential design flaws and improvements before incurring significant costs due to re-tooling and re-work, allowing them to optimize a design rapidly and cost-effectively. Our systems also aid in the communication of ideas otherwise communicated in abstract or 2D media. For example, a model produced with our systems may be used as a sales tool, as a model or part display or simply for use in conducting a focus group. It may also be used for collaboration in the product design and manufacturing cycles at multiple locations more quickly, enabling visualization, touch and feel, which can be critical to the product evaluation or sales process.

Our solutions also empower our end-users to engage in DDM via the use of our systems for the quick and efficient direct manufacture of parts that are subsequently incorporated into the user s manufacturing processes or end product. For instance, our solutions enable the production of manufacturing tools, jigs, fixtures, casts and injection molds that aid in the customer s production and assembly process. DDM is also particularly attractive in applications that require short-run or low-volume parts that require rapid turn-around, and for which tooling would not be appropriate due to small volumes, such as dental and jewelry applications. Our solutions also enable the production of objects that generally could not otherwise be manufactured through subtractive manufacturing methodologies.

Range of technologies and differentiating factors

Our solutions are driven by our proprietary technologies. We believe that our merger brings together two companies featuring technology leadership within the AM industry. Stratasys, Inc. pioneered fused deposition modeling, or FDM, technology, and Objet Ltd. pioneered 3D printing with PolyJet-based technology. Our combined company holds more than 500 granted or pending additive manufacturing patents globally.

Our AM systems utilize our patented FDM and inkjet-based PolyJet technologies to enable the production of prototypes, tools used for production and manufactured goods directly from 3D CAD files or other 3D content. We believe that our broad range of product offerings, which includes products offered under seven different brands, is a function of our AM technology leadership. We also offer more than 120 proprietary photopolymer materials for PolyJet-based printing and 10 proprietary thermoplastic materials for FDM-based printing. We believe that the range of more than 130 3D printing materials that we offer is the widest in the industry.

As is the case with all of our AM systems, our FDM-based products import 3D geometric designs into one of our proprietary software programs, which mathematically slices the design into horizontal layers that are automatically downloaded into the system. A spool of thin thermoplastic modeling material feeds into a moving FDM extrusion head, which heats the material to a semi-liquid state. This semi-liquid material is extruded, deposited and bonded, one ultra-thin layer at a time, on a base in a thermally-controlled modeling chamber. As the material is directed into place by the computer-controlled head, layer upon layer, the material bonds and solidifies, creating a precise and strong model.

A key attribute of our FDM-based technology is its ability to use a variety of production grade thermoplastic building materials that feature surface resolution, chemical and heat resistance, color, and mechanical properties necessary for production of functional prototypes and parts for a variety of industries with specific demands and requirements. Use of these materials also enables the production of highly durable end parts as well as objects with soluble cores for the manufacture of hollow parts, the manufacture of which were previously dependent on slower and more expensive subtractive manufacturing technologies.

We believe that this technology is differentiated by a number of factors that make it appropriate for 3D printing and DDM. These factors include:

- the ability to use FDM systems in an office environment due to the absence of hazardous emissions;
- the relative absence of post-processing;
- minimal material waste;
- better processing and build repeatability;
- ease of use, minimal system set up requirements;
- no need for costly replacement lasers and laser parts; and
- a high degree of precision and reliability.

Our PolyJet inkjet-based systems build 3D objects by jetting our proprietary photopolymer materials in layers onto a build tray, layer by layer, until a target part, determined by the corresponding computer file, is completed. The jet head slides back and forth along the X and Y axes, depositing an ultra thin layer (as thin as 16 microns) of photopolymer onto the build tray. The jet head and each individual nozzle in it are managed by our proprietary software, and the internal tray in the printer moves downward, along the Z axis, after each layer is deposited, with the jet heads continuing to add layers of material until the model is complete. Each photopolymer layer is cured by ultraviolet light emitted alongside the jetting bridge, producing fully cured models that can be handled and used immediately upon completion of the printing process, without the need for post-curing.

We are a pioneer in 3D inkjet-based PolyJet printing technology, which we believe is primarily differentiated from other competing technologies in its ability to scale and deliver high-resolution and multi-material printing. Our easy-to-use, high-speed 3D PolyJet printers create high-resolution, smooth surface finish models that have the look, feel and functionality of the final designed product. We offer a wide variety of office-friendly resin consumables, including rigid and flexible (rubber-like) materials and bio-compatible materials for medical applications. Using our PolyJet Matrix technology, our solutions also offer the only 3D printing systems that deposit two materials simultaneously. This enables users, in a single build process, to print parts and assemblies made of two materials that each retain their distinct mechanical and physical properties. For example, users can print objects with both rigid and flexible portions in a single build. The PolyJet Matrix technology also enables on-demand mixing of a wide variety of resins to create a wide range of pre-defined Digital Materials, which are composite materials with modified physical or mechanical properties that result from the combination of two materials.

Our PolyJet inkjet-based technology is also currently distinguished by its ability to offer transparent material printing in an office environment system. Transparency is a desired feature in the design and engineering phases of product development and is applicable in automotive, consumer products and consumer electronics. The main applications are lighting components, tubing and piping, package optimization, and fluid analysis.

We also offer Drop-on-Demand, or DoD, thermoplastic ink-jetting technology to produce wax-like patterns for lost-wax casting/investment casting and mold making applications. The process begins with the creation of a 3D geometric design on a CAD workstation. The CAD file is then input into the 3D printer using our proprietary graphical front-end software. The DoD printer creates solid 3D parts through an additive, layer-by-layer process, using patent-protected, DoD thermoplastic ink-jetting technology and high-precision milling of each layer. The parts produced are extremely high resolution with very precise details and fine surface finish, making our DoD systems well-suited for DDM.

Range of applications and customers

Our solutions are employed across multiple industries, including:

- Aerospace
- Apparel
- Architecture
- Automotive
- Business Machines Products
- Consumer
- Defense
- Dental
- Electronics
- Educational Institutions
- Heavy Equipment
- Jewelry
- Medical
- Toys

Our systems are installed at a number of Fortune 100 companies. We have sold systems to the following representative customers:

- Adidas Group
- Black & Decker
- Boeing
- Boston Scientific
- BMW
- Burton Snowboards
- Cessna Aircraft
- Dell
- Dolce & Gabbana
- Ford Motor Company
- Graco
- Harley Davidson
- Hasbro
- Hewlett Packard
- Honda
- General Electric Hyundai
- Intel
- Lego
- Lever
- Lockheed Martin
- Medtronic-Sofamar Danek
- Mitsubishi Electronics
- NASA
- Nike
- Philips
- Pioneer Speaker
- St. Jude Medical
- Toro
- Toyota
- University of Texas
- University of Wisconsin Madison
- US Army Depots
- US Navy Fleet Readiness Center
- Volkswagen
- Xerox
- Zebco

Competitive strengths

We believe that the following are our key competitive strengths:

- **Enhanced capabilities and scale.** We believe that our merger created an AM industry leader. Specifically, given the large portfolio of AM solutions that our combined company offers, we believe that we are well positioned to provide customers with a broad array of solutions by offering systems that produce parts with a wide range of capabilities and materials. We also believe that the merger will yield a deeper research and development team that will be well positioned to remain at the forefront of innovation within our industry. Furthermore, we expect that our competitive position will improve due to the significant increase in scale and more comprehensive reach resulting from the merger. We also believe that our financial performance will benefit from merger-related revenue synergies and projected tax savings.

- **Proprietary FDM and PolyJet-based technology platforms.** We believe that our proprietary 3D FDM and 3D inkjet-based PolyJet printing engines offer end users the versatility and differentiated features necessary for a wide variety of current and potential applications. We combine our proprietary hardware platforms, featuring widely-deployed inkjet printer heads or easy-to-use extrusion heads with integrated software and more than 100 proprietary inkjet-based photopolymer materials and 10 proprietary FDM-based

thermoplastic materials to develop and produce leading 3D printing systems. This allows us to offer a spectrum of 3D printers and printing systems of varying features, capacities and price points, and to migrate the advanced features of our high-end products to our entry-level products with greater efficiency.

- **Differentiated product offerings with superior model quality.** Our 3D printing systems are differentiated through a combination of superior printing qualities, accuracy, print speed, the ability to print a range of materials with varying levels of strength, chemical and heat resistance, color and mechanical properties, the ability to print multiple materials simultaneously and suitability for office environments. Our FDM-based systems enable highly precise printing of 10 different durable thermoplastic materials, enabling a wide range of DDM applications with little or no post-production processing. Our PolyJet inkjet-based systems jet ultra-thin layers that enable significant accuracy, high resolution and smooth finish to printed models. For use with these systems we offer a wide variety of office-friendly resin consumables, including rigid and flexible (rubber-like) materials. We offer the only printing system that utilizes the simultaneous jetting of two materials to enable end-users to print models with both rigid and flexible parts in a single build. Our Solidscape DoD thermoplastic ink-jetting technology offers high-precision milling of each printed layer, enabling extremely high resolution with precise details and fine surface finish.

- **Multidisciplinary technological expertise.** Our 3D printing solutions integrate innovations in a wide range of scientific disciplines, such as physics, chemistry, and mechanical and electrical engineering, as well as software development. We have made significant investments in developing and integrating technologies into our hardware platform, software and proprietary consumables. We believe that we have a strong base of technology know-how. Our patent portfolio consists of more than 500 granted or pending additive manufacturing patents globally. As of December 31, 2012, our R&D and engineering teams consisted of 211 employees out of a total of 1,125 employees. We believe that we have a culture of innovation, and we expect to continue to enhance our solutions both to further drive market adoption of 3D printing and to broaden our market reach.

- **Large and growing installed base.** Our differentiated offerings have led to a large and growing installed base. As of December 31, 2012, our constituent companies had sold more than 29,000 professional and production systems. We derive recurring revenues through sales of proprietary consumables used by our AM systems, as well as from the provision of services to our installed base.

- **Diverse, global, blue chip customer base.** Our end-users include companies across a wide range of industries and applications. Our clients include: aerospace companies such as Boeing and Cessna; apparel companies such as Burton Snowboards and Dolce & Gabbana; automotive industry participants such as BMW, Ford and Volkswagen; consumer goods companies such as Black & Decker, Dell and Philips; toy companies such as Hasbro and Lego; medical equipment companies such as Boston Scientific and St. Jude Medical; and sporting goods companies such as the Adidas Group, Nike and Zebco.

- **Extensive global reseller and sales agent network**. With more than 260 channel partners around the world, we are well-positioned to leverage the extensive geographic reach of our marketing and sales organization to serve customers and grow awareness of 3D printing for RP and DDM. We also believe that our merger will result in greater distribution reach and enhanced opportunities for cross selling into our combined company s installed basegiven the significantly broadened and complementary product offerings the merger produced. The combined company will also offer improved customer service by joining two experienced teams capable of servicing a combined product line and technology portfolio.

Strategy

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

- **Identifying new applications for our proprietary 3D printing technologies.** We believe that the proliferation of 3D content, advancements in AM technology platforms and the introduction of improved materials will continue to drive growth in 3D printing. We intend to invest in the identification of new applications (especially DDM applications) for which our proprietary printing technologies and materials are appropriate. 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. For example, an emerging portion of the DDM market segment is the production of manufacturing tools known as jigs and fixtures, which include gauges, forms, organizational aids and other manufacturing devices that aid in production and assembly processes. While replacing conventionally manufactured jigs and fixtures with 3D printed tools reduces fabrication expenses, there are often far more significant financial advantages obtained from production-floor reductions in labor and time to market. Accordingly, manufacturers are increasingly deploying fixtures where they previously did not do so. Similarly, DDM also enables the production of objects that have been topologically designed, or designed on the basis of a computerized determination of where to place the key components of the object and how to connect them, a process that is generally unavailable using conventional subtractive manufacturing methodologies.

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- **Driving further market adoption through lower capacity 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 systems, which are offered at lower price points. Our Idea series 3D printers are expected to penetrate a broad and largely untapped 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.

- **Leveraging global reseller network to expand customer base and further penetrate existing customers.** One of the strategic reasons for our merger was to create a combined sales and marketing organization that includes more than 260 resellers and selling agent entities around the world. We will seek to increase the penetration of our existing customer base by enabling customers to streamline purchasing processes and by increasing cross-selling into the combined company s installed base. In order to achieve this goal, we are integrating our existing sales networks in order to create a unified marketing and sales organization with global reach. We also intend to reach new customers and increase sales to existing customers by providing access to new solutions that address customers specific needs. As part of this strategy we intend to grow awareness of 3D printing solutions for RP and DDM and to develop industry specific sales channels as part of our effort to commercialize a broader range of new DDM applications.

- **Maintaining and extending technology lead.** Our multidisciplinary technological leadership, evidenced by our more than 500 global patents, underpins our proprietary hardware, integrated software and range of more than 120 3D printing materials, including more than 100 proprietary inkjet-based PolyJet photopolymer materials and 10 proprietary FDM-based thermoplastic materials. We will seek to extend our technological capabilities by continuing to invest in our R&D efforts, which focus on enhancing our 3D PolyJet printing and FDM technologies and developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, thereby broadening user applications. We believe that by enhancing our AM technological capabilities and by developing and introducing new materials for our 3D printing and production systems, we will be able to increase both the size of, and our market share in, the 3D printing market. We also believe that by combining two companies dedicated to AM innovation, our merger has positioned us to remain AM technology leaders, as our combined company has more capabilities to develop new consumables and systems than either of our constituent companies could alone develop.

- **Grow through complementary acquisitions.** We intend to selectively pursue acquisitions to expand our product offerings and market penetration. Accordingly we may consider acquisitions and investments in order to effect and accelerate our other growth strategies.

Our Products

Our products consist of our various series of AM systems and the consumables they use. These series offer a broad range of performance options for consumers, depending on their desired application, as well as on the nature and size of the designs, prototypes or end-products they seek to produce. Within each series, we offer products at different price points. We offer our AM systems under the following brands: uPrint, Mojo, Objet, Dimension, Fortus and Solidscape. These products include affordable desktop 3D printers for idea and design development, a range of systems for RP, and large production systems for DDM. We also offer a range of more than 130 3D printing materials, including more than 120 proprietary inkjet-based PolyJet photopolymer materials and 10 proprietary FDM-based thermoplastic materials. The performance of our different systems varies in terms of capabilities which are related to the following features:

- printing technologies;
- print speed;
- resin cartridge capacity and filament spool size;
- maximum model size, or tray size;
- duty cycle, or the number of objects that a printer can produce over a given period of time without requiring maintenance; and
- materials.

Our systems also integrate our software and are supported by services that we provide to our customers, both directly and through our reseller channel.

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Our AM systems are described below:

Idea Series

The idea series includes our lower capacity, entry-level and most affordable set of 3D printers, comprising the MoJo and uPrint product families. These products are designed for easy, desktop use and accordingly are used most often by individual professionals, small design teams and educators. Both product families are FDM-based.

MoJo, our newest 3D printer, was introduced in May 2012. MoJo targets new entrants into the 3D printing market, and accordingly requires no training for set up and operation, with settings selected at the host computer, not the printer itself. It includes our easy-to-use preprocessing software, Print Wizard, which helps users efficiently manage workflow. MoJo also features a self-contained, hands-free cleaning system, and requires no plumbing. As an entry-level product, its initial list price is below $10,000. However, despite its entry-level classification, MoJo builds models with our ABS*plus* plastic, a significantly strengthened form of ABS, the plastic often used for injection molding. MoJo also leverages our FDM technology to feature a layer resolution previously available only in our more advanced Dimension and Fortus systems.

We introduced the uPrint Personal 3D Printer in January 2009. In January 2010, we introduced the uPrint Plus, which offers the same small footprint as the previously introduced uPrint but offers a 33% larger build envelope. It also allows the user to print in seven additional colors and offers two resolution settings. Both the uPrint and uPrint Plus use our FDM technology to build models with our ABS*plus* material, enabling users to visualize and communicate product ideas as well as to test the form, fit and function of models and prototypes.

Design Series

Our design series includes two different product families containing seven different AM systems: the Precision family, consisting of our Objet brand Desktop, Eden and Connex product lines, and the Performance family, consisting of our Stratasys Dimension brand production systems. The wide range of products in the design series, featuring both PolyJet-based and FDM technologies, makes it well-suited for all aspects of RP, from design visualization and communication to form and fit verification to model building for functional testing. The variety of products also provides customers with a broad range of choices of features such as printing capacity, production speed and price.

- ***Dimension family of 3D production systems***

  The Dimension line of systems allows users to create parts in ABS*plus* plastic. This material enables production of parts containing the strength required for true form, fit and functional testing. Dimension systems operate in an office environment and provide speed, ease of use and networking capabilities at a competitive price.
- ***Objet family of 3D printers***

- ***Connex 3D printers***

  The Connex line of 3D printers is our most advanced PolyJet-based printer line featuring the highest capacity and offering the broadest set of features, including the ability to deposit two materials simultaneously while printing. Our Connex 3D printers offer large tray sizes, large cartridge capacity and high duty cycles, and produce a wide variety of objects at high speeds with high accuracy, smooth surfaces, complex shapes and stand-out text, using a range of materials. Additionally, our Connex printers enable simultaneous jetting of multiple model materials in a single build, opening up a variety of applications.

  By placing different materials in the Connex system, which are sprayed from different nozzles, users can either print parts and assemblies made of two materials with different mechanical and physical properties or create composite materials whose mechanical properties reflect the combination of two materials. If rigid and flexible qualities are required in a single model, the materials spray separately onto various parts of the model, enabling users to, for example, in a single build process print objects with distinct visual effects such as transparency to differentiate areas of interest, or create operational hinges, gaskets or hoses. If a composite material is required for a model, the materials spray simultaneously in varying amounts, thereby facilitating the combination of two materials during the printing process to yield one unique, new composite material, with distinct mechanical or physical properties, allowing the creation of objects such as shoe soles or tires. This ability to form multiple material products very early in the product design process reduces costs and minimizes risks associated with creating costly and complex molds at a later stage. Users of Connex products are able to change the material mix based on pre-set specifications in our integrated software, allowing them to vary the material properties of the resulting composite material on-demand after the initial design process is complete.

- ***Eden 3D printers***

  Our Eden line of systems consists of office-friendly systems suitable for a wide variety of 3D printing applications. Eden printers are offered in a variety of models with small to large cartridge capacities, varying print speeds and differing model resolutions, but without the ability to deposit two materials simultaneously.
- ***Desktop 3D printers***

  Our Desktop line is our lower capacity, entry-level line of PolyJet-based systems. These printers provide the same general print quality as the Eden printing systems while differing from the Eden systems in tray size, cartridge capacity, duty cycle and print speed, with a more limited set of materials that can be jetted. The desktop 3D printers are sufficiently small to fit on a desk or a stand that we offer with the printer. These printers package the ability to produce high-quality, finely detailed 3D printed models into smaller, more affordable systems.

Production Series

Our production series of systems features our Fortus family of products, which offers large build envelopes and multiple material options. Fortus 3D Production Systems produce accurate, durable prototypes and production-grade parts and end-products using high-performance thermoplastics. These features, together with the Fortus family s differentiated printing and operational features, enable this series to address many applications within the DDM market.

Our largest system, the Fortus 900mc, is capable of building parts measuring 4.5 feet diagonally, nine times larger volumetrically than parts built by the next largest Fortus system, the Fortus 400mc. The Fortus 900mc uses ball-screw technology, which improves part accuracy, positional repeatability and tolerances.

The Fortus 400mc introduced an increase in repeatability, part accuracy and material strength over its predecessors. Both the Fortus 900mc and 400mc offer customers the ability to use nine different thermoplastic materials.

In addition, we offer the Fortus 360mc, which offers similar part quality to the Fortus 400mc, but fewer material choices and slower build speeds. Both of these systems can be configured to meet specific customer needs. In addition, we offer the Fortus 250mc, our most affordable 3D production system. This model is also differentiated by its capacity to utilize ABS*plus*, which is significantly stronger than our standard ABS material.

The InSight software used by our Fortus systems offers the customer an array of features, ranging from a fully automated build process to one that allows the user to customize each step.

As part of our production series, we also offer our Solidscape line of 3D printers for DDM applications. This line of products combines patent-protected, DoD thermoplastic ink-jetting technology and high-precision milling of each layer, with our proprietary graphical front-end ModelWorks software. These products are primarily used to produce wax-like patterns for lost-wax casting/investment casting and mold making applications. Objects created with these systems feature extremely high pattern resolution and accuracy. Accordingly, these printers are well-suited for small parts and assemblies used in personal consumer electronics such as:

- jewelry products such as investment cast fine jewelry
- mobile phones, pagers, MP3 players; and
- biomedical products such as biocompatible implants, dental prosthetics, orthodontic appliances, toys, medical research, orthopedics.

Post-printing processing

Each of the products described above deposit support material along with building material as part of the 3D printing or production process. Each of these products also features technology that enables easy water-based removal of the support material, thereby making post-printing processing easier, safer and more efficient.

Our FDM-based products incorporate our WaterWorks soluble support system. The patented WaterWorks process allows for the easy removal of supports from a completed prototype by simple immersion into a water-based solution. Because our support materials dissolve in a solution, many post-processing steps required in our competitors systems are not required with our systems.

Our PolyJet products print a wax-like resin support material wherever build or model resin is not printed, in order to support the remaining model layers as they are printed. This support material is specially designed to be easily removed by hand under a stream of water at the end of the printing process.

Consumable Materials

We sell a broad range of more than 130 materials for use in out 3D printers and production systems. The materials we offer include more than 120 proprietary photopolymer materials for inkjet-based PolyJet printing and 10 proprietary thermoplastic materials for FDM-based printing. The sale of these materials provides us with a recurring revenue stream from users of our 3D printers and production systems.

The materials we sell are described below:

FDM-based consumable materials

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

Each material has specific characteristics that make it appropriate for various applications. The ability to use different materials allows the user to match the material to the end use application, whether it is a pattern for tooling, a concept model, a functional prototype, a DDM manufacturing tool, or a DDM end use part. ABS and ABS*plus* are offered in numerous colors, including white, black, red, blue, yellow, olive, nectarine and dark grey. We also offer a service to create custom colors for unique customer needs.

PolyJet-based resin consumables

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

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

All FullCure 3D printing materials are delivered in sealed, 1.0 or 3.6 kilogram cartridges, helping to ensure environmentally safe use. The 3D printer cartridges may be easily removed and disposed.

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DoD inkjet-based consumable materials

Our Solidscape 3D materials are non-toxic thermoplastic materials featuring excellent lost wax casting qualities, including fast melt out, no ash or residue and no thermal expansion. Currently, we have three modeling materials commercially available for use with our Solidscape technology. These include materials formulated specifically for particular industries, such as a thermalpolyester formula developed to help retail jewelers and manufacturers meet the market demand for finished goods using less precious materials and a thermalpolyester material formulated to deliver high casting yields for dental applications.

Integrated software

We offer suites of integrated software with our various AM systems; each is designed to make the process of creating high-quality, highly detailed and accurate models more efficient. Our software supports commonly used 3D file formats and converts three-dimensional CAD databases into the appropriate code to operate our AM systems. Our software also provides a wide range of features, including automatic support generation, part scaling, positioning and nesting, as well as geometric editing capabilities.

Our different software suites are designed for our different AM systems and their different applications. Accordingly, certain software focuses on increasing build speed and improving the design engineer s control and efficiency over the entire build process. Other software suites offer simple click & build preparation and print tray editing, and provide easy, accurate job timing estimation and full job control, including queue management. Similarly, we offer software that allows users to make adjustments to 3D printing properties. For example, for our Connex line of 3D printers, our software enables users to change the material mix in the printing process, allowing users to modify quickly the properties of the model being printed.

The software designed for our PolyJet inkjet-based 3D printers enables users to work in parallel and send jobs from any network computer to the server. Jobs enter the queue either according to the parameters configured by the system administrator, or in chronological order. The queue is therefore easily managed, as each user has access to his or her jobs and the administrator can set and adjust parameters and access permissions. In configurations of multiple printing systems on the network, each user automatically receives the parameters of the selected system, such as tray size, loaded materials, and queue status, helping ensure easy, error-free tray setup.

Our Services

Support services and warranty

Customer support

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

- More than 500 trained, Stratasys-certified engineers providing worldwide, on-site installation, training and support.

- Direct support engineers through our company.
- Indirect support engineers through certified partners, including third-party service organizations or selected resellers who provide support for our uPrint systems.

- Phone and direct on-site support in four languages.
- Service logistics in key regional centers.
- Training facilities and resources in regional centers.
- Computerized management system and knowledge distribution platform to ensure high-quality support for our customers, including secure remote access to a customer service database containing service history and technical documentation to aid in troubleshooting and repairing systems.
- Support, tools and up-to-date information to our direct customer and distribution channels from our product support engineering team.

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

We offer services on a time and materials basis as well as through a number of post-warranty maintenance contracts with varying levels of support and pricing, as described below under Extended support programs.

Customer support is represented on cross-functional product development teams within our company to ensure that products are designed for serviceability and to provide our internal design and engineering departments with feedback on field issues. Failure analysis, corrective action, and continuation engineering efforts are driven by data collected in the field. Ongoing customer support initiatives include development of advanced diagnostic and troubleshooting techniques and comprehensive preventative maintenance programs, an expanded training and certification program for technical personnel, and improved communication between the field and the factory.

Basic warranty

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

Extended support programs

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

Additional Services

Leasing

In the United States, we lease or rent 3D printers and 3D production systems to customers that may not be interested in purchasing a printer.

RedEye Paid Parts

Our RedEye paid parts service produces prototypes and end-use parts for customers from a customer-provided CAD file. This allows the customer to benefit from our knowledge base, capitalize on the variety of materials and machine types available through our service center, and take advantage of additional capacity using the latest in proven RP and DDM technologies and processes. Our RedEye on Demand website service, www.redeyeondemand.com, enables our customers to obtain quotes and order parts around the clock, seven days a week.

RedEye also has a relationship with two foreign service bureaus that use our 3D printers, along with other technologies, to produce prototypes. We collect a portion of the revenue generated by these printers.

Marketing, Sales and Distribution

Marketing

Our marketing strategy is focused on increasing awareness of our brands in order to generate sales and increase our customer loyalty. We also focus heavily upon the identification of customer needs. We initiate marketing programs and campaigns to drive lead generation throughout the regions in which we and our resellers and agents operate. We customize our sales pipeline-building activities and programs to industry-specific requirements. This infrastructure allows us to measure and analyze the success of various marketing tactics. Based on our analysis, we create and update our product roadmaps and individual marketing plans to help optimize distribution while helping ensure a smooth process of release, ramp-up and sales.

We use a variety of inbound and outbound marketing methods to reach potential customers. Inbound methods include a variety of online marketing strategies comprising search marketing (for example, Search Engine Optimization and Pay- Per-Click advertising), social media, blogs, syndication, webinars and white papers. Outbound channels include more traditional marketing methods such as press releases, print advertisements, trade magazine articles, direct mail and e-mail, websites, brochures, tradeshows, newsletters, industry associations and referrals. In addition, we have developed domestic and international on-site demonstration capabilities in certain of our regional offices.

Sales distribution methods

Our sales organization sells, distributes and provides follow-up support services with respect to our AM systems and related consumables, through a worldwide sales and marketing infrastructure. We generally use three methods for distribution and support: (i) sales to resellers who purchase and resell our products and through whom follow-up support and maintenance services and replacement parts are provided to end-users; (ii) sales of systems that are arranged by a network of independent sales agents worldwide, pursuant to which we sell directly to end-users, pay commissions to such agents, and directly handle the sale of consumables and provision of follow-up support services; and (iii) direct sales of systems to end-users without the involvement of any intermediaries, for which all aspects of our sales and follow-up services are handled exclusively by our company. In certain instances, the same individual or company can serve as a reseller with respect to certain of our products while acting as an independent sales agent for other products. Our resellers and independent sales agents are overseen by regional managers and operate on a non-exclusive basis, although we believe that most do not sell competing 3D printers or production systems.

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

Geographical structure of sales organization

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

Customers

Generally, neither any single customer or group of affiliated customers nor any individual sales agent or group of affiliated sales agents accounted for more than 10% of our sales in 2012, 2011 or 2010.

Manufacturing and suppliers

Manufacturing

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

We purchase major component parts for our 3D printing and production systems from various suppliers, subcontractors and other sources, and assemble them in our U.S. and Israeli facilities. Our production floors have been organized using demand-flow techniques, or DFT, in order to achieve efficiency, quality and balance of our production lines. As capacity constraints arise, because of our use of DFT, we can avoid the requirements of reconfiguring our production floor.

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

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

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

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

To provide customers with assurance regarding the quality and consistency of our systems, we obtained ISO 9001: 2008 certification for our Minnesota production facilities in February 2011. ISO 9001: 2008 provides a structure for a quality management system that strives for customer satisfaction, consistent quality, and efficiency. In addition, there are internal benefits such as improved customer satisfaction, interdepartmental communications, work processes, and customer-and-supplier partnerships. The ISO 9000 family of standards relates to quality management systems and is designed to help organizations ensure that they meet the needs of customers and other stakeholders.

Inventory and suppliers

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

Ricoh Agreement

We purchase the printer heads for our inkjet 3D printing systems from Ricoh pursuant to an OEM Purchase and License Agreement with Ricoh, effective as of May 5, 2011, or the Ricoh Agreement. The current Ricoh Agreement replaced our original agreement with Ricoh that had been entered into in June 2000 and amended on various occasions subsequently, and which expired upon the effectiveness of the new Ricoh Agreement.

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

Pricing under the Ricoh Agreement depends on the quantity of Ricoh Products that we purchase during any given month, and to the extent that we commit to a certain annual minimum prior to an upcoming year (beginning with 2011), we receive a set, discounted price for all Ricoh Products ordered during that upcoming year.

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

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

twelve months of when it is placed.

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

Research and development

We maintain an ongoing program of research and development, or R&D, to develop new systems and materials and to enhance our existing product lines, as well as to improve and expand the capabilities of our systems and related software and materials. This includes significant technology platform developments for our FDM, PolyJet and DoD technologies, our 3D printing and production systems, including our integrated software, and our family of proprietary acrylic-based photopolymer materials for PolyJet printing and family of proprietary thermoplastic materials for FDM printing. Our research aims to develop improved and more affordable products. Our engineering development efforts also focus on customer requested enhancements, and development of new modeling processes, software and user applications. In particular, we have devoted significant time and resources to the development of a universally compatible and user-friendly software system.

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

We invest a significant amount of our resources in R&D as we believe that superior technology is key to maintaining a leading market position. Our R&D expenses were approximately $19.7 million, $14.4 million and $9.8 million in the years ended December 31, 2012, 2011 and 2010, respectively, and, on a pro-forma basis for our combined company, were approximately $36.9 million and $31.9 million in 2012 and 2011, respectively, representing 10.3% and 11.5% of our revenues on a pro-forma basis in those years.

Our consumable materials development and production operations are located at our facilities in Eden Prairie, MN, and Kiryat Gat, Israel. We regard the consumable materials formulation and manufacturing process as a trade secret and hold patent claims related to these products. We purchase and formulate raw materials for our consumables production from various polymer resin suppliers with different levels of processing and value add applied to the raw materials.

Intellectual property

We consider our proprietary technology to be important to the development, manufacture, and sale of our products and seek to protect such technology through a combination of patents, trade secrets, and confidentiality agreements and other contractual arrangements with our employees, consultants, customers and others. All patents and patent applications for rapid prototyping processes and apparatuses associated with our technology were assigned to us by their inventors. As part of our purchase of rapid prototyping technology assets from IBM, we were also assigned the rights and title to several patents developed by IBM. We recorded those patents in the United States and in certain foreign countries. As of January 31, 2013, we had more than 235 granted patents and more than 220 pending patent applications in the aggregate, encompassing granted patents and/or patent applications in various North American, European, Asian, Middle Eastern and Far Eastern jurisdictions, as well as international applications pursuant to the Patent Cooperation Treaty. Together with patents for which we have in-licensed rights, our global patent portfolio exceeds 500 granted or pending AM patents. The principal granted patents relate to our FDM systems, our PolyJet and PolyJet Matrix technologies, our 3D printing processes and our consumables, with expiration dates ranging from 2013 to 2031.

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

In addition, we own the registered trademarks Stratasys, Objet, Dimension Ecoworks, Fortus, FullCure, Redeye, Solidscape and a number of additional unregistered trademarks, including Connex, Eden, PolyJet, PolyJet Matrix, FDM Technology and Vero. However not believe that any of our trademarks are material to our competitive position.

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

Competition

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

- Stereolithography;
- Selective Laser Sintering;
- Power Binding; and
- Digital Light Projection.

The companies that use these technologies to compete with us include 3D Systems Corporation, CMET, EOS Optronics GmbH and EnvisionTEC GmbH.

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

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

- material properties of printed objects, such as heat resistance, toughness, brittleness, elongation-to-break and flexibility;
- quality of printed objects measured by, among other things, resolution, accuracy and surface quality;
- multiple production-grade modeling materials;
- reliability of printing systems;
- speed of printing, including a one-step automated modeling process;
- customer service;
- ability to be used in an office environment;
- ease of use; and
- automatic, hands-free support removal.

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

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

Backlog

Our total backlog of system orders at December 31, 2012 was approximately $28.6 million. We estimate that most of our backlog will ship by the end of the first quarter of 2013.

Seasonality

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

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

a given quarter.

Global operations

We have offices in the United States, Israel, Germany, Italy, China, Hong Kong, Japan and India, and organize our operations by geographic region, focusing upon the following key regions: North America; Europe; Asia Pacific; and Latin America. Our products are distributed in each of these regions, as well as in other parts of the world. Our customers are dispersed geographically, and we are not reliant on any single country or region for most of our product sales and services revenues, although 51% of our 2012 sales, on a pro forma basis, were made in North America. A breakdown of our consolidated revenues by geographic markets and by categories of operations (that is, products and services) for the years ended December 31, 2012, 2011 and 2010 is provided in Item 5.A Operating and Financial Review and Prospects Operating Results.

In maintaining global operations, our business is exposed to risks inherent in such operations, including currency fluctuations, market conditions, and inflation in the primary locations in which our operating expenditures are incurred. Information on currency exchange risk, market risk, and inflationary risk appears elsewhere in this annual report, in Item 3.D Risk Factors and in Item 11 Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Exchange Risk.

Employees

The total number of our full-time equivalent employees, and the distribution of our employees (i) geographically and (ii) within the divisions of our company, in each case as of December 31, 2012, 2011 and 2010, are set forth in Item 6.D of this annual report (Directors, Senior Management and Employees Employees).

Government regulation

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

- regulations promulgated by federal and state environmental and health agencies;
- foreign environmental regulations, as described under Environmental Matters immediately below;
- the federal Occupational Safety and Health Administration;
- the U.S. Foreign Corrupt Practices Act;
- laws pertaining to the hiring, treatment, safety and discharge of employees;
- export control regulations for U.S. made products; and
- CE regulations for the European market.

Environmental matters

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

In Israel, where we assemble our inkjet-based PolyJet 3D printing systems and manufacture our resin consumables, businesses storing or using certain hazardous materials, including materials necessary for our Israeli manufacturing process, are required, pursuant to the Israeli Dangerous Substances Law 5753-1993, to obtain a toxin permit from the Ministry of Environmental Protection. Our current toxin permit will remain in effect until November 2013. Furthermore, the business licenses that we hold for our Israeli facilities are subject to the receipt of permits from local health and planning and zoning authorities as well as clearance from the Ministry of Environmental Protection, which have been obtained.

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

Israeli Tax Considerations and Government Programs

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

General Corporate Tax Structure in Israel

The regular rate of corporate tax to which Israeli companies were subject in 2012 was 25%. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Privileged Enterprise or a Preferred Enterprise, as further discussed below, may be considerably lower. See Law for the Encouragement of Capital Investments in this Item below. In addition, commencing in 2010, Israeli companies have been subject to regular corporate tax rate on their capital gains.

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

Law for the Encouragement of Capital Investments

The Law for the Encouragement of Capital Investments, 5719-1959, to which we refer as the Investment Law, provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, which may be either an Approved Enterprise , a Privileged Enterprise or a Preferred Enterprise , is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility in which the investment is made or the election of the grantee.

The Investment Law has been amended several times over recent years, with the two most significant changes effective as of April 1, 2005, to which we refer as the 2005 Amendment, and as of January 1, 2011, to which we refer as the 2011 Amendment. Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment, remain in force, but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment, yet companies entitled to benefits under the Investment Law as in effect up to January 1, 2011, may choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead to forgo such benefits and elect for the benefits of the 2011 Amendment.

The following discussion is a summary of the Investment Law prior to its amendments as well as the relevant changes contained in the new legislations.

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

Under the Investment Law prior to its amendment, a company that wished to receive benefits had to receive an approval from the Investment Center of the Israeli Ministry of Industry, Trade and Labor, to which we refer as the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

An Approved Enterprise may elect to forgo any entitlement to the grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. We have chosen to receive the benefits through the alternative benefits program. Under the alternative benefits program, a company s undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending upon the geographic location within Israel of the Approved Enterprise. In our case, the period of exemption is two or ten years. The benefits commence on the date in which that taxable income is first earned. Upon expiration of the exemption period, the Approved Enterprise is eligible for the reduced tax rates otherwise applicable under the Investment Law for any remainder of the otherwise applicable benefits period. The benefits period under Approved Enterprise status is limited to 12 years from the year the program commences its operations, or 14 years from the year of the approval as an Approved Enterprise, whichever ends earlier. If a company has more than one Approved Enterprise program or if only a portion of its capital investments are

approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise. Income derived from activity that is not integral to the activity of the Approved Enterprise will not enjoy tax benefits. Our entitlement to the above benefits is subject to fulfillment of certain conditions, according to the law and related regulations.

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

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

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

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted Approved Enterprise status during the tax exemption period will be required to recapture the deferred corporate income tax applicable to the amount distributed (grossed up to reflect such tax) at the rate that would have been applicable had such income not been tax-exempted under the alternative route. This rate generally ranges from 10% to 25%, depending on the extent to which non-Israeli shareholders hold such company s shares.

In addition, dividends paid out of income generated by an Approved Enterprise (or out of dividends received from a company whose income is generated by an Approved Enterprise) are generally subject to withholding tax at the rate of 15%, or at the lower rate provided under an applicable tax treaty. The 15% tax rate is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at the lower rate under an applicable tax treaty. In the case of an FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

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

The benefits available to an Approved Enterprise are subject to the continued satisfaction of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval, as described above. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest.

We have received the requisite approval, including a final approval, for all of our Approved Enterprise investment programs, in accordance with the Investment Law. The above-described benefits that accompany these investment programs and our Privileged Enterprise investment programs (for which accompanying benefits are described below) have had the effect, both historically and in 2012, of reducing Objet s effective consolidated tax rates considerably lower than the statutory Israeli corporate tax rate of 25% in 2012. In 2012, Objet s effective consolidated tax rate was 8.7% (after excluding the impact of acquisition related costs and purchase price accounting adjustments related to the merger). We expect that our effective consolidated tax rate for 2013 and thereafter will also be reduced due to these investment programs

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

The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. However, the 2005 Amendment limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise s income will be derived from export.

An enterprise that qualifies under the new provisions is referred to as a Privileged Enterprise , rather than Approved Enterprise . The 2005 Amendment provides that the approval of the Investment Center is required only for Approved Enterprises that receive cash grants. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive tax benefits. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the 2005 Amendment. A company that has a Privileged Enterprise may, at its discretion, approach the Israeli Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) that derive more than 25% of their business income from export to specific markets with a population of at least 12 million. In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all the conditions that are set out in the amendment for tax benefits and which exceeds a minimum amount specified in the Investment Law. Such investment entitles a company to a Privileged Enterprise status with respect to the investment, and may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Privileged Enterprise. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a Privileged Enterprise and the company s effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a Privileged Enterprise must exceed a certain percentage of the value of the company s production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Privileged Enterprise is determined, among other things, by the geographic location of the Privileged Enterprise. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Privileged Enterprise within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefit period, depending on the level of foreign investment in the company in each year, as explained above.

Dividends paid out of income derived by a Privileged Enterprise will be treated similarly to payment of dividends by an Approved Enterprise under the alternative benefits program. Therefore, dividends paid out of income derived by a Privileged Enterprise (or out of dividends received from a company whose income is derived from a Privileged Enterprise) are generally subject to withholding tax at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. The reduced rate of 15% is limited to dividends and distributions out of income derived from a Privileged Enterprise during the benefits period and actually paid at any time up to 12 years thereafter except with respect to an FIC, in which case the 12-year limit does not apply.

Furthermore, a company qualifying for tax benefits under the 2005 Amendment, which pays a dividend out of income derived by its Privileged Enterprise during the tax exemption period, will be subject to corporate tax in respect of the gross amount of the dividend at the otherwise applicable rate of 25%, or lower in the case of an FIC, which is at least 49% owned by non-Israeli residents.

Pursuant to a recent amendment to the Investments Law, which became effective on November 12, 2012, a company that elects by November 11, 2013 to pay a reduced corporate tax rate as set forth in that amendment (rather than the regular corporate tax rate applicable to Approved Enterprise income) with respect to undistributed exempt income accumulated by the company until December 31, 2011 will be entitled to distribute a dividend from such income without being required to pay additional corporate tax with respect to such dividend. A company that has so elected must make certain qualified investments in Israel over the five-year period commencing in 2013. A company that has elected to apply the amendment cannot withdraw from its election. If we elect to take advantage of the amendment, we will be required to pay up to approximately $2.4 million as a one-time payment. We have not yet decided whether to make such an election.

As of December 31, 2012, we had accumulated tax-exempt income of approximately $50.8 million that is attributable to our various Approved and Privileged Enterprise programs. If such tax exempt income were to be distributed, it would be taxed at the reduced corporate tax rate applicable to such income, which would have amounted to approximately $5.0 million of tax liability as of December 31, 2012.

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The benefits available to a Privileged Enterprise are subject to the continued satisfaction of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest, or other monetary penalty.

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

The 2011 Amendment cancels the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a Preferred Company through its Preferred Enterprise (as such term is defined in the Investment Law) effective as of January 1, 2011 and onward. A Preferred Company is defined as either (i) a company organized in Israel and not fully owned by a governmental entity or (ii) a limited partnership that: (a) was registered under the Partnerships Ordinance; (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities, which, among other things, has Preferred Enterprise status and are controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate flat tax rate of 15% with respect to its preferred income derived by its Preferred Enterprise in 2011-2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate will be reduced to 12.5% and 7%, respectively, in 2013-2014 and to 12% and 6% in 2015 and thereafter. Income derived by a Preferred Company from a Special Preferred Enterprise (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax will be withheld.

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. These transitional provisions provide, among other things, that

- Terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, that chose to receive grants, before the 2011 Amendment came into effect, will remain subject to the provisions of the Investment Law as in effect on the date of such approval. However, provided that certain conditions are met, the 25% tax rate applied to income derived by an Approved Enterprise during the benefit period will be replaced with the regular corporate income tax rate (25% as of 2012), unless a request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011 (such request should have been made by way of an application to the Israeli Tax Authority by June 30, 2011). Such request may not be withdrawn.

- Terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, that had participated in an alternative benefits program, before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. However, a company that has such enterprise can file a request with the Israeli Tax Authority, according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law as amended in 2011.

- A Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met, or file a request with the Israeli Tax Authority according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law as amended in 2011.

We have examined the possible effect, if any, of these provisions of the 2011 Amendment on our financial statements and have decided, at this time, not to opt to apply the new benefits under the 2011 Amendment.

C. Organizational Structure.

Our corporate structure includes Stratasys Ltd., our Israeli parent company, and the following active wholly-owned subsidiary entities: Stratasys, Inc., a Delaware corporation, which was formerly a publicly held company and which became our indirect, wholly-owned subsidiary as a result of the merger; Solidscape, Inc., a Delaware corporation, which had been acquired by Stratasys, Inc. in May 2011 and which became our indirect , wholly owned subsidiary as a result of the consummation of the merger; Objet Geometries Inc. (d/b/a Objet Inc.), a Delaware corporation; Objet AP Limited, a Hong Kong limited company, and Objet Shanghai Ltd., a Chinese company, which together carry out most of our operations in the Asia Pacific region; and Objet GMBH and Stratasys GMBH, German limited liability companies, and Technimold, S.R.L., an Italian limited liability company, which together carry out our European operations. In addition, Stratasys Ltd. owns 51% of a Japanese company, Objet Japan Co., Ltd., which was established as a joint venture together with the 3D printer division of Fasotec Co. Ltd., which was established as a joint venture with our longstanding distributor in the Asia Pacific region. In connection with the merger, we also formed the

following additional subsidiaries: Stratasys International Ltd., or the Israeli subsidiary, an Israeli company that is a wholly-owned subsidiary of Stratasys Ltd.; and Seurat Holdings Inc., a Delaware corporation and a direct wholly-owned subsidiary of the Israeli subsidiary. (See also the list of subsidiaries appended to this annual report as Exhibit 8.)

D. Property, Plants and Equipment.

We have dual headquarters, in Eden Prairie, Minnesota and Rehovot, Israel. Our Eden Prairie, Minnesota headquarters (near Minneapolis), which we own, comprises executive offices and production facilities presently encompassing approximately 288,312 available square feet in four buildings. These four buildings serve the following respective purposes: system assembly, inventory storage, operations and sales support; manufacturing for our RedEye paid parts service; research and development, filament manufacturing, and administrative, marketing and sales activities; and expansion of our production capacity for systems and consumables. Our Rehovot, Israel headquarters, which we lease pursuant to a lease agreement with a term of five years that expires on December 31, 2016, comprise approximately 91,025 square feet of space. Our lease payments, inclusive of management fees, for these facilities are approximately $1.8 million annually. These facilities house our Israeli administrative headquarters, our research and development facilities, and certain manufacturing activities.

As of December 31, 2012, we leased office space (except with respect to our Eden Prairie headquarters facilities and our Kiryat Gat, Israel facilities, where we own the property) for various purposes, as set forth in the table below. The aggregate annual lease payments for our facilities during 2012 (on a pro-forma basis, calculated as if the merger had been consummated on January 1, 2012) were approximately $3.5 million. Unless otherwise stated, all of our facilities are fully utilized. We have no material tangible fixed assets apart from the properties described below.

Location and Use(s)	**Approximate square feet**
Eden Prairie, Minnesota (U.S. headquarters and manufacturing facility)	288,312
Rehovot, Israel (Israeli headquarters)	91,025
Kiryat Gat, Israel (resin factory and laboratories)	72,118
Minneapolis, Minnesota (research and development)	8,475
Billerica, Massachusetts (office space)	15,000
Merrimack, New Hampshire (Solidscape facilities, including manufacturing)	28,590
Rancho Cucamonga, California (North American sales office)	7,583
Rheinmünster, Germany (Objet GMBH office space)	8,571
Frankfurt, Germany (Stratasys GMBH sales and service office)	16,081
Genoa, Italy (Technimold, S.R.L. sales and service office)	6,857
Hong Kong (Objet AP Limited office space)	5,165
Hong Kong (Stratasys, Inc. Chinese sales office)	30
Shanghai, China (Objet Shanghai Ltd. office space)	3,227
Tokyo, Japan (Objet Japan Co., Ltd. office space)	862
Bangalore, India (Stratasys, Inc. sales office)	1,800

While, as described above in the Risk Factors in Item 3.D, we utilize hazardous chemicals in some of the production processes for products sold by us, we believe that there are no environmental issues that encumber our use of our facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

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

A. Operating Results.

Overview

We are a leading global provider of 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, including affordable desktop 3D printers for idea and design development, various systems for rapid prototyping and large production systems for direct digital manufacturing, or DDM. We also develop, manufacture and sell materials