

February 17, 2010



Stratasys Reports Fourth Quarter and Full Year Financial Results

Q4 Cash Flow from Operations Exceeds \$11 Million

Company Begins 2010 With Record System Backlog

MINNEAPOLIS--(BUSINESS WIRE)-- Stratasys, Inc. (Nasdaq:SSYS) today announced fourth quarter and full year financial results.

Revenue was \$26.2 million for the fourth quarter ended December 31, 2009 as compared with \$31.9 million reported for the same period in 2008. System shipments totaled 431 units for the fourth quarter of 2009, as compared with 570 for the same period last year.

Net income was \$2.4 million for the fourth quarter, or \$0.12 per share, compared to net income of \$2.0 million, or \$0.10 per share, for the same period last year.

Non-GAAP net income, which excludes certain discrete items and stock-based compensation expense, was \$2.9 million, or \$0.14 per share, for the fourth quarter of 2009 compared to \$3.2 million, or \$0.16 per share, for the same period last year.

Revenue was \$98.4 million for the twelve-month period ended December 31, 2009 versus \$124.5 million reported for the same period in 2008. System shipments totaled 1,918 units for the twelve-month period of 2009, versus 2,184 for the same period last year.

Net income was \$4.1 million for the twelve-month period of 2009, or \$0.20 per share, compared to net income of \$13.6 million, or \$0.65 per share, for the same period last year.

Non-GAAP net income, which excludes certain discrete items and stock-based compensation expense, was \$5.7 million, or \$0.28 per share, for the twelve-month period ended December 31, 2009 compared to \$16.0 million, or \$0.76 per share, for the same period last year.

Cash flow from operations totaled \$11.3 million and \$25.5 million for the fourth quarter and twelve-month periods in 2009, respectively. The company had \$70.9 million in cash and investments as of the end of December 2009.

Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a table at the end of this press release. The table provides itemized detail of impairment charges, restructuring expenses, as well as the stock-based compensation expenses used to determine non-GAAP financial measures.

"We are pleased with our fourth quarter performance considering the difficult economic environment," said Scott Crump, chairman and chief executive officer of Stratasys. "We observed an improvement in business conditions during the quarter as customers have

become more confident in an economic recovery and willing to increase spending. System orders in December were notably strong, leading to a record system backlog of \$6.3 million.

"Our margins for the fourth quarter improved over the same quarter last year and sequentially, driven by the relatively strong sales of our high-margin consumables. The growth in consumables during the quarter was significant, given that it represents the first positive sales growth for consumables in twelve months. Our margins also benefited from the cost-saving measures we implemented in early 2009, and our successful initiative to lower the manufacturing cost of our uPrint 3D printers.

"Cash flow continues to be exceptionally strong as we generated over \$11 million and over \$25 million in cash from operations during the fourth quarter and full year, respectively. This was a significant accomplishment considering the difficult year, but is also a credit to the hard work of our finance and operations teams in better managing our working capital. Our total cash and investment position increased to \$71 million as of the end of 2009 as compared with \$48 million at the end of 2008.

"We finished 2009 encouraged by the positive trends within our markets and emboldened by our new strategic initiatives - we believe that we are well-positioned coming out of the recession. We believe the growth trend in consumables combined with our record year-end backlog suggest a building of positive momentum. Our indirect distribution model for Fortus systems in North America is beginning to generate positive results, and despite the difficult operating environment in 2009, our margins expanded in the fourth quarter and we strengthened our financial position.

"Throughout 2009 we communicated our goal of significantly expanding our distribution footprint within 3D printing. In a major strategic step to meet that goal, we recently announced a game-changing agreement with HP for the worldwide distribution of Stratasys developed and manufactured 3D printers. We believe the agreement represents a major inflection point in advancing our 3D printing strategy worldwide. In addition, we believe HP's decision is confirmation that a significant market opportunity exists among the millions of designers that are using 3D CAD today.

"HP's proven track record in our market as the established sales leader for 2D design plotters makes them an ideal candidate for collaboration within 3D printing. We can now leverage our industry-leading FDM technology with HP's brand awareness and extensive sales and marketing organization. HP will begin the rollout of an HP-brand 3D printer later this year, and we are on track to begin shipment of those products in the coming months. We believe this agreement will ultimately allow us to realize the full sales potential within 3D printing.

"In evaluating our industry, HP concluded that the Stratasys FDM technology represented the best platform for their 3D printing products. A perfect example of FDM's capabilities was recently showcased by Autodesk, the world's leader in design software, at their annual user conference in December. During the conference, Autodesk unveiled a full-scale turbo-prop aircraft engine model, designed in Autodesk's Inventor software, and produced entirely by using Stratasys FDM technology.

"FDM is the core technology that drives all our products, including our Fortus line of 3D production systems. The highly durable and accurate production-grade plastic part output of

our Fortus line provides an ideal solution for a broad range of applications, including direct digital manufacturing (DDM), or the production of finished parts. We are excited that our collaboration with an unnamed Fortune 500 company to develop products targeting DDM applications will be continuing in 2010.

"Although business trends are encouraging as we begin 2010, we will continue to conservatively manage our resources given the difficulty in predicting market conditions over the near-term. However, the economy aside, we believe the current long-term opportunities available to us are the most exciting in our company's history and we look forward to successfully executing our plan over the coming months," Crump concluded.

The company plans to hold a conference call to discuss its fourth quarter financial results on Wednesday, February 17, 2010 at 8:30 a.m. (ET). The investor conference call will be available via live webcast on the Stratasys Web site at www.stratasys.com under the "Investors" tab; or directly at the following web address: <http://phx.corporate-ir.net/phoenix.zhtml?p=irol-eventDetails&c=61402&eventID=2718530>.

To participate by telephone, the domestic dial-in number is 800-299-0433 and the international dial-in is 617-801-9712. The access code is 22588899. Investors are advised to dial into the call at least ten minutes prior to the call to register. The webcast will be available for 90 days on the "Investors" page of the Stratasys Web site or at the provided web address.

The company recently produced a video that provides an overview of the turbo-prop displayed by Autodesk (Nasdaq:ADSK) at their annual user conference in December. That video can be accessed at the following web address: http://www.youtube.com/watch?v=ALA2Gp59_IM&feature=related.

Stratasys, Inc., Minneapolis, manufactures additive fabrication machines for prototyping and manufacturing plastic parts. The company also operates a service for part prototyping and production. According to Wohlers Report 2009, Stratasys supplied 43 percent of all additive fabrication systems installed worldwide in 2008, making it the unit market leader for the seventh consecutive year. Stratasys patented and owns the process known as FDM.^(R) The process creates functional prototypes and end-use parts directly from any 3D CAD program, using high-performance industrial thermoplastics. The company holds more than 285 granted or pending additive fabrication patents globally. Stratasys products are used in the aerospace, defense, automotive, medical, business and industrial equipment, education, architecture, and consumer-product industries. Online at: www.Stratasys.com.

Forward Looking Statements

All statements herein that are not historical facts or that include such words as "expects," "anticipates," "projects," "estimates," "vision," "could," "potential," "planning" or "believes" or similar words constitute forward-looking statements covered by the safe harbor protection of the Private Securities Litigation Reform Act of 1995. Except for the historical information herein, the matters discussed in this news release are forward-looking statements that involve risks and uncertainties. These include statements regarding projected revenue and income in future quarters; the size of the 3D printing market; our objectives for the marketing and sale of our Dimension^(R) and uPrint 3D Printers and our FortusTM 3D Production Systems, particularly for use in direct digital manufacturing (DDM); the demand for our

proprietary consumables; the expansion of our paid parts service; and our beliefs with respect to the growth in the demand for our products. Other risks and uncertainties that may affect our business include our ability to penetrate the 3D printing market; the success of our distribution agreement with HP; our ability to achieve the growth rates experienced in preceding quarters; our ability to introduce, produce and market new materials, such as ABSplus and ABS-M30, and the market acceptance of these and other materials; the impact of competitive products and pricing; our timely development of new products and materials and market acceptance of those products and materials; the success of our recent R&D initiative to expand the DDM capabilities of our core FDM technology and our distribution agreement with HP; and the success of our RedEyeOnDemand™ and other paid parts services. Actual results may differ from those expressed or implied in our forward-looking statements. These statements represent beliefs and expectations only as of the date they were made. We may elect to update forward-looking statements, but we expressly disclaim any obligation to do so, even if our beliefs and expectations change. In addition to the statements described above, such forward-looking statements are subject to the risks and uncertainties described more fully in our reports filed or to be filed with the Securities and Exchange Commission, including our annual reports on Form 10-K and quarterly reports on Form 10-Q.

Financial Tables & Non-GAAP Discussion

The information discussed within this release includes financial results that are in accordance with accounting principles generally accepted in the United States (GAAP). Certain prior year balance sheet amounts shown in the financial tables have been reclassified to conform to the current year's presentation. In addition, certain non-GAAP financial measures have been provided that exclude certain charges and expenses. The non-GAAP measures should be read in conjunction with the corresponding GAAP measures and should be considered in addition to, and not as an alternative or substitute for, the measures prepared in accordance with GAAP. The non-GAAP financial measures are provided in an effort to provide information that investors may deem relevant to evaluate results from the company's core business operations and to compare the company's performance with prior periods. The non-GAAP financial measures primarily identify and exclude certain discrete items, such as an impairment charge for certain auction rate securities, restructuring expenses, and expenses associated with stock-based compensation required under ASC 718. The company uses these non-GAAP financial measures for evaluating comparable financial performance against prior periods.

This release is also available on the Stratasys Web site at www.Stratasys.com.

STRATASYS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended December 31,		Twelve Months Ended December 31,	
2009	2008	2009	2008
(unaudited)	(unaudited)	(unaudited)	

Net sales				
Product	\$ 20,012,834	\$ 25,050,071	\$ 73,210,550	\$ 98,969,152
Services	6,220,923	6,892,902	25,145,682	25,525,859
	26,233,757	31,942,973	98,356,232	124,495,011
Cost of sales				
Product	10,042,286	13,160,364	40,925,443	47,672,443
Services	2,821,727	2,856,974	11,047,217	10,410,249
	12,864,013	16,017,338	51,972,660	58,082,692
Gross profit	13,369,744	15,925,635	46,383,572	66,412,319
Operating expenses				
Research and development	2,226,740	2,131,381	7,737,125	8,973,203
Selling, general and administrative	7,565,589	9,837,854	32,822,727	36,842,665
	9,792,329	11,969,235	40,559,852	45,815,868
Operating income	3,577,415	3,956,400	5,823,720	20,596,451
Other income (expense)				
Interest income, net	235,227	390,527	989,922	2,037,257
Foreign currency transaction losses, net	(63,619)	(535,142)	(232,767)	(834,762)
Other	(415,383)	(778,868)	(398,603)	(1,065,459)
	(243,775)	(923,483)	358,552	137,036
Income before income taxes	3,333,640	3,032,917	6,182,272	20,733,487
Income taxes	941,810	1,021,623	2,066,001	7,118,000
Net income	\$ 2,391,830	\$ 2,011,294	\$ 4,116,271	\$ 13,615,487
Earnings per common share				
Basic	\$ 0.12	\$ 0.10	\$ 0.20	\$ 0.66
Diluted	\$ 0.12	\$ 0.10	\$ 0.20	\$ 0.65

Weighted
average number
of common
shares
outstanding

Basic	20,268,299	20,221,071	20,235,747	20,676,436
Diluted	20,372,274	20,250,483	20,267,999	21,079,265

STRATASYS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,	December 31,
2009	2008
(unaudited)	

ASSETS

Current assets

Cash and cash equivalents	\$ 48,315,926	\$ 27,945,799
Short-term investments - held to maturity	16,073,718	4,835,055
Accounts receivable, less allowance for doubtful accounts of \$903,101 at December 31, 2009 and \$1,017,521 at December 31, 2008	19,249,813	26,539,733
Inventories	14,608,014	19,889,351
Net investment in sales-type leases, less allowance for doubtful accounts of \$222,011 at December 31, 2009 and \$324,642 at December 31, 2008	3,618,876	3,870,472
Prepaid expenses and other current assets	2,247,612	2,608,080
Deferred income taxes	2,277,000	2,168,000
Total current assets	106,390,959	87,856,490
Property and equipment, net	26,326,012	29,749,921
Other assets		
Intangible assets, net	7,653,269	8,347,200
Net investment in sales-type leases	3,477,039	4,545,977

Deferred income taxes	688,000	-
Long-term investments - available for sale	1,055,750	1,109,250
Long-term investments - held to maturity	5,467,318	13,825,981
Other non-current assets	2,078,165	2,308,214
Total other assets	20,419,541	30,136,622
Total assets	\$ 153,136,512	\$ 147,743,033
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and other current liabilities	\$ 12,874,798	\$ 11,795,238
Unearned revenues	10,678,427	12,765,396
Total current liabilities	23,553,225	24,560,634
Non-current liabilities		
Deferred tax liabilities	-	620,000
Total non-current liabilities	-	620,000
Total liabilities	23,553,225	25,180,634
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value, authorized 30,000,000 shares; 26,053,318 and 25,909,603 issued as of 2009 and 2008, respectively	260,533	259,096
Capital in excess of par value	94,329,398	91,611,078
Retained earnings	74,015,940	69,899,669
Accumulated other comprehensive loss	(18,159)	(203,019)
Less cost of treasury stock, 5,687,631 shares in 2009 and 2008	(39,004,425)	(39,004,425)
Total stockholders' equity	129,583,287	122,562,399
Total liabilities and stockholders' equity	\$ 153,136,512	\$ 147,743,033

STRATASYS, INC.

RECONCILIATION OF NON-GAAP TO GAAP RESULTS OF OPERATIONS

	Non-GAAP Adjustments for the Three Months Ended December 31, 2009				Non-GAAP Adjustments for the Three Months Ended December 31, 2008				
	Consolidated		Consolidated		Consolidated			Consolidated	
	(unaudited)	Stock-Based	Investment	(unaudited)	(unaudited)	Stock-Based	Investment	Sales and	(unaudited)
	As Reported	Compensation (1) (2)	Impairments (3) (5)	Non-GAAP	As Reported	Compensation (1)	Impairments (5)	Reorganization (6)	Non-GAAP
Selling, general and administrative expenses	\$ 7,565,589	\$ (229,896)	\$ -	\$ 7,335,693	\$ 9,837,854	\$ (360,682)	\$ -	\$ (545,417)	\$ 8,931,755
Total operating expenses	9,792,329	(229,896)	-	9,562,433	11,969,235	(360,682)	-	(545,417)	11,063,136
Operating income	3,577,415	229,896	-	3,807,311	3,956,400	360,682	-	545,417	4,862,499
Other income (loss)	(415,383)	-	444,000	28,617	(778,868)	-	830,750	-	51,882
Total other income	(243,775)	-	444,000	200,225	(923,483)	-	830,750	-	(92,733)
Income before income taxes	3,333,640	229,896	444,000	4,007,536	3,032,917	360,682	830,750	545,417	4,769,766
Income taxes	941,810	(13,052)	148,296	1,077,054	1,021,623	20,000	319,000	188,169	1,548,792
Net income	\$ 2,391,830	\$ 242,948	\$ 295,704	\$ 2,930,482	\$ 2,011,294	\$ 340,682	\$ 511,750	\$ 357,248	\$ 3,220,974
Earnings per common share									
Basic	\$ 0.12	\$ 0.01	\$ 0.01	\$ 0.14	\$ 0.10	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.16
Diluted	\$ 0.12	\$ 0.01	\$ 0.01	\$ 0.14	\$ 0.10	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.16

Weighted
average number
of common
shares
outstanding

Basic	20,268,299	20,268,299	20,221,071	20,221,071
Diluted	20,372,274	20,372,274	20,250,483	20,250,483

Non-GAAP Adjustments for the Twelve Months Ended December 31, 2009

Non-GAAP Adjustments for the Twelve Months Ended December 31, 2008

Consolidated	Consolidated				Consolidated				Consolidated		
(unaudited)	Stock-Based	Investment	Restructuring	Non-GAAP	(unaudited)	(unaudited)	Stock-Based	Investment	Sales and	Workforce	(unaudited) (7)
As Reported	Compensation	Impairments	(4)		As Reported	Compensation	Impairments	Reorganization	Reductions	Non-GAAP	
	(1) (2)	(3) (5)				(1)	(5)	(6)			

Selling, general and administrative expenses	\$ 32,822,727	\$ (900,855)	\$ -	\$ (778,840)	\$ 31,143,032	\$ 36,842,665	\$ (1,317,185)	\$ -	\$ (545,417)	\$ (181,416)	\$ 34,798,647
Total operating expenses	40,559,852	(900,855)	-	(778,840)	38,880,157	45,815,868	(1,317,185)	-	(545,417)	(181,416)	43,771,850
Operating income	5,823,720	900,855	-	778,840	7,503,415	20,596,451	1,317,185	-	545,417	181,416	22,640,469
Other income (loss)	(398,603)	-	444,000	-	45,397	(1,065,459)	-	1,270,750	-	-	205,291
Total other income	358,552	-	444,000	-	802,552	137,036	-	1,270,750	-	-	1,407,786
Income before income taxes	6,182,272	900,855	444,000	778,840	8,305,967	20,733,487	1,317,185	1,270,750	545,417	181,416	24,048,255
Income taxes	2,066,001	88,948	148,296	266,907	2,570,152	7,118,000	209,218	488,000	188,169	62,589	8,065,976
Net income	\$ 4,116,271	\$ 811,907	\$ 295,704	\$ 511,933	\$ 5,735,815	\$ 13,615,487	\$ 1,107,967	\$ 782,750	\$ 357,248	\$ 118,827	\$ 15,982,279

Earnings per
common share

Basic	\$ 0.20	\$ 0.04	\$ 0.01	\$ 0.03	\$ 0.28	\$ 0.66	\$ 0.05	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.77
Diluted	\$ 0.20	\$ 0.04	\$ 0.01	\$ 0.03	\$ 0.28	\$ 0.65	\$ 0.05	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.76

Weighted
average number
of common
shares
outstanding

Basic	20,235,747		20,235,747	20,676,436		20,676,436
Diluted	20,267,999		20,267,999	21,079,265		21,079,265

These adjustments reconcile the Company's GAAP results of operations to its non-GAAP results of operations. The Company believes that presentation of results adjusted for the non-GAAP items described below provides meaningful supplemental information to both management and investors.

- (1) - Represents non-cash stock-based compensation expense.
- (2) - Income taxes for stock-based compensation expense included a favorable impact from incentive stock options exercised during the fourth quarter of 2009.
- (3) - Represents a \$350,000 reduction in the assessed fair value of an equity investment that the Company considered to be other than temporary.
- (4) - Represents severance and other related costs associated with the Company's restructuring in the first quarter of 2009.
- (5) - Represents a reduction in the assessed fair value of an auction rate security investment that the Company considered to be other than temporary.
- (6) - Represents reorganization costs associated with the Company's North American sales and marketing operations.
- (7) - Represents severance and other related employee costs associated with the Company's workforce reduction in the third quarter of 2008.

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

Source: Stratasys, Inc.