

STRATASYS INC  
Form 10-Q  
August 06, 2004

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-13400

**STRATASYS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

36-3658792  
(I.R.S. Employer Identification No.)

14950 Martin Drive, Eden Prairie, Minnesota  
(Address of principal executive offices)

55344  
(Zip Code)

(952) 937-3000  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August \_\_\_\_, 2004, the Registrant had \_\_\_\_\_ shares of common stock, \$.01 par value, outstanding.

**Stratasys, Inc.**

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## Item 1. Financial Statements

**STRATASYS, INC.****CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2004 (unaudited)</b>	<b>December 31, 2003</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 45,541,761	\$ 44,544,341
Short-term investments	1,337,530	950,000
Accounts receivable, less allowance for returns and doubtful accounts of \$1,046,152 in 2004 and \$767,367 in 2003	18,408,135	15,788,095
Inventories	8,169,744	6,423,658
Net investment in sales-type leases	706,004	398,207
Prepaid expenses	1,773,625	2,809,541
Deferred income taxes	146,000	146,000
<b>Total current assets</b>	<b>76,082,799</b>	<b>71,059,842</b>
<b>Property and equipment, net</b>	<b>9,304,946</b>	<b>6,544,663</b>
<b>Other assets</b>		
Intangible assets, net	2,698,227	2,496,593
Net investment in sales-type leases	1,681,227	888,367
Deferred income taxes	2,124,000	2,124,000
Long-term investments	720,000	625,000
Other	166,546	361,761
	<b>7,390,000</b>	<b>6,495,721</b>
	<b>\$ 92,777,745</b>	<b>\$ 84,100,226</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

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**Current liabilities**

Accounts payable and other current liabilities	\$	7,634,497	\$	4,940,055
Unearned maintenance revenue		6,094,199		5,263,962

Total current liabilities		13,728,696		10,204,017
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**Stockholders' equity**

Common Stock, \$.01 par value, authorized 15,000,000 shares, issued 12,136,485 shares in 2004 and 12,028,320 shares in 2003		121,364		120,283
Capital in excess of par value		70,834,277		69,924,093
Retained earnings		15,361,029		11,063,902
Accumulated other comprehensive loss		(71,480)		(41,274)
Less cost of treasury stock, 1,770,026 shares in 2004 and 1,768,856 shares in 2003		(7,196,141)		(7,170,795)

Total stockholders' equity		79,049,049		73,896,209
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	\$	92,777,745	\$	84,100,226
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*See notes to consolidated financial statements.*

**STRATASYS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b> <b>(unaudited)</b>	<b>2003</b> <b>(unaudited)</b>	<b>2004</b> <b>(unaudited)</b>	<b>2003</b> <b>(unaudited)</b>
<b>Sales</b>	\$ 17,315,648	\$ 12,073,761	\$ 33,161,823	\$ 22,751,402
<b>Cost of goods sold</b>	6,836,095	4,158,237	12,976,135	7,978,307
<b>Gross profit</b>	10,479,553	7,915,524	20,185,688	14,773,095
<b>Costs and expenses</b>				
Research and development	1,345,067	1,337,441	2,691,396	2,495,598
Selling, general and administrative	5,605,591	4,600,445	11,197,664	8,830,697
	6,950,658	5,937,886	13,889,060	11,326,295
<b>Operating income</b>	3,528,895	1,977,638	6,296,628	3,446,800
<b>Other income (expense)</b>				
Interest income	124,484	39,723	236,231	76,252
Interest expense		(40,976)		(82,288)
Other	(34,980)	45,654	(71,013)	106,040
	89,504	44,401	165,218	100,004
<b>Income before income taxes</b>	3,618,399	2,022,039	6,461,846	3,546,804
<b>Income taxes</b>	1,226,381	505,509	2,164,719	886,701
<b>Net income</b>	\$ 2,392,018	\$ 1,516,530	\$ 4,297,127	\$ 2,660,103

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**Earnings per common share**

Basic	\$	0.23	\$	0.18	\$	0.42	\$	0.32
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Diluted	\$	0.22	\$	0.16	\$	0.40	\$	0.29
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**Weighted average number of common shares outstanding**

Basic	10,331,963	8,493,408	10,301,560	8,293,677
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Diluted	10,711,375	9,257,786	10,716,031	9,140,678
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**COMPREHENSIVE INCOME (LOSS)**

Net income	\$	2,392,018	\$	1,516,530	\$	4,297,127	\$	2,660,103
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**Other comprehensive loss**

Foreign currency translation adjustment	(3,897)	(1,208)	(30,206)	(22,734)
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Comprehensive income	\$	2,388,121	\$	1,515,322	\$	4,266,921	\$	2,637,369
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*See notes to consolidated financial statements.*

**STRATASYS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended June 30,</b>	
	<b>2004</b> <b>(unaudited)</b>	<b>2003</b> <b>(unaudited)</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 4,297,127	\$ 2,660,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	369,107	
Depreciation	814,463	806,791
Amortization	434,950	492,110
Loss on disposal of assets	16,011	114,010
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(2,620,040)	(92,277)
Inventories	(1,701,810)	57,397
Net investments in sales-type leases	(1,100,657)	
Prepaid expenses	1,035,916	45,617
Other assets	195,215	(260,256)
Accounts payable and other current liabilities	2,694,442	894,032
Unearned maintenance revenue	830,237	474,782
<b>Net cash provided by operating activities</b>	<b>5,264,961</b>	<b>5,192,309</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(482,530)	
Acquisition of machinery and equipment	(3,635,033)	(929,810)
Payments for intangible assets	(636,584)	(246,759)
<b>Net cash used in investing activities</b>	<b>(4,754,147)</b>	<b>(1,176,569)</b>
<b>Cash flows from financing activities</b>		
Purchase of treasury stock	(25,346)	
Payments of mortgage payable		(28,038)
Net proceeds from exercise of stock options	542,158	2,818,999

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<b>Net cash provided by financing activities</b>	516,812	2,790,961
<b>Effect of exchange rate changes on cash</b>	(30,206)	(22,734)
<b>Net increase in cash and cash equivalents</b>	997,420	6,783,967
<b>Cash and cash equivalents, beginning of period</b>	44,544,341	14,193,590
<b>Cash and cash equivalents, end of period</b>	\$ 45,541,761	\$ 20,977,557

*See notes to consolidated financial statements.*



**STRATASYS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

	<b>Six Months Ended June 30,</b>	
	<b>2004</b> <b>(unaudited)</b>	<b>2003</b> <b>(unaudited)</b>
<b>Supplemental disclosures of cash flow information,</b>		
cash paid during the period for:		
Interest	\$	\$ 82,288
Income taxes	\$ 7,000	\$ 45,888
<b>Supplemental disclosures of noncash investing and financing activities:</b>		
Inventory transferred from machinery and equipment	\$ 44,276	\$ 91,046

*See notes to consolidated financial statements.*

**Notes to Financial Statements**

## Note 1 Basis of Presentation

The financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the interim period. The results of operations for the three and six months ended June 30, 2004, are not necessarily indicative of the results to be expected for the full year. Certain financial information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The reader is referred to the audited financial statements and notes thereto for the year ended December 31, 2003, filed as part of the Company's Annual Report on Form 10-K for such year.

## Note 2 Inventory

Inventories consisted of the following at June 30 and December 31, respectively:

	<u>2004</u>	<u>2003</u>
Finished Goods	\$ 4,934,704	\$ 3,432,460
Raw materials	3,235,040	2,991,198
<b>Totals</b>	<b>\$ 8,169,744</b>	<b>\$ 6,423,658</b>

## Note 3 Material Commitments

The Company has signed material commitments with several vendors for fixed delivery of selected inventory expected to be supplied in the ensuing twelve-month period. These commitments amount to approximately \$8,200,000, some of which contain non-cancellation clauses.

## Note 4 Income per common share

The difference between the number of shares used to compute basic income per share and diluted income per share relates to additional shares to be issued upon the assumed exercise of stock options and warrants, net of shares hypothetically repurchased at the average market price with the proceeds of exercise. For the three months ended June 30, 2004 and 2003, the additional shares amounted to 379,412 and 764,378, respectively. For the six months ended June 30, 2004 and 2003, the additional shares amounted to 414,471 and 847,001, respectively.

## Note 5 Stock Based Compensation

The Company has various stock option plans that have been approved by the shareholders. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board No 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations. No stock-based employee compensation is reflected in the net income for the three and six month periods ended June 30, 2004 and 2003, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The company follows the disclosure-only provisions of SFAS No. 123 Accounting for Stock-Based Compensation. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 Accounting for Stock-Based Compensation, to stock-based employee compensation:

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	Three Months Ended June 30,	
	2004	2003
Net income as reported	\$ 2,392,018	\$ 1,516,530
Effect of stock based compensation accounted for under the fair value recognition provisions, net of tax	(339,250)	(37,750)
Pro forma net income	<u>\$ 2,052,768</u>	<u>\$ 1,478,780</u>
Earnings per share:		
Basic, as reported	\$ .23	\$ .18
Basic, pro forma	.20	.17
Diluted, as reported	.22	.16
Diluted, pro forma	.19	.16
	Six Months Ended June 30,	
	2004	2003
Net income as reported	\$ 4,297,127	\$ 2,660,103
Effect of stock based compensation accounted for under the fair value recognition provisions, net of tax	(666,000)	(75,500)
Pro forma net income	<u>\$ 3,631,127</u>	<u>\$ 2,584,603</u>
Earnings per share:		
Basic, as reported	\$ .42	\$ .32
Basic, pro forma	.35	.31
Diluted, as reported	.40	.29
Diluted, pro forma	.34	.28

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General**

We develop, manufacture, and market a family of rapid prototyping ( RP ) devices, including our 3D printing systems, that enable engineers and designers to create physical models, tooling and prototypes out of plastic and other materials directly from a computer aided design ( CAD ) workstation. We have continued to successfully implement our strategy to address the needs of both the productivity and 3D printing ends of the market. Our growth in the second quarter of 2004 was derived from a number of industries, including consumer products, government agencies, educational institutions, electronics, general manufacturing, medical, automotive, and aerospace. Our strategy in 2004 will be to continue to expand our position in the 3D printing market through increased sales of Dimension BST and Dimension SST, our low-cost 3D printers. We introduced the Dimension SST in February 2004 at \$34,900 and concurrently reduced the list price on Dimension BST from \$29,900 to \$24,900. We believe that Dimension BST, priced at \$24,900, is among the lowest priced systems in the RP market. We believe that the 3D printing market represents a significant growth area and that Dimension BST and Dimension SST will continue to have a significant positive impact on our results in 2004 and beyond.