

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

Form 6-K

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

For the month of May 2018

Commission File Number 001-35751

STRATASYS LTD.

(Translation of registrant's name into English)

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

**1 Holtzman Street, Science Park
P.O. Box 2496
Rehovot, Israel 76124**

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F. Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

The contents of this Report of Foreign Private Issuer on Form 6-K (this “Form 6-K”), including Exhibits 99.1, 99.2 and 101 annexed hereto, are incorporated by reference into the Registrant’s registration statements on Form S-8, SEC file numbers 333-185240 and 333-190963, filed by the Registrant with the SEC on December 3, 2012 and September 3, 2013, respectively, and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

CONTENTS

On May 2, 2018, Stratasys Ltd., or Stratasys, released its financial results for the three months ended March 31, 2018.

Attached hereto as Exhibit 99.1 are the unaudited, condensed consolidated financial statements of Stratasys for the three months ended March 31, 2018 (including the notes thereto) (the “Q1 2018 Financial Statements”).

Attached hereto as Exhibit 99.2 is Stratasys’ review of its results of operations and financial condition for the three months ended March 31, 2018, including the following:

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

Attached hereto as Exhibit 101 are the Q1 2018 Financial Statements, formatted in XBRL (eXtensible Business Reporting Language), consisting of the following sub-exhibits:

Exhibit

Exhibit Number	Document Description
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 2, 2018

STRATASYS LTD.

By: /s/ Lilach Payorski

Name: Lilach Payorski

Title: Chief Financial Officer

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2018
(UNAUDITED)

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2018
(UNAUDITED)**

<u>Item</u>	<u>Page</u>
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Comprehensive Loss	3
Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5-16

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 346,531	\$ 328,761
Accounts receivable, net	119,844	132,671
Inventories	120,065	115,717
Net investment in sales-type leases	5,980	7,208
Prepaid expenses	8,261	7,696
Other current assets	19,295	22,858
Total current assets	619,976	614,911
Non-current assets		
Net investment in sales-type leases - long-term	3,423	4,439
Property, plant and equipment, net	197,554	199,951
Goodwill	387,416	387,108
Other intangible assets, net	132,811	142,122
Other non-current assets	34,475	31,219
Total non-current assets	755,679	764,839
Total assets	\$ 1,375,655	\$ 1,379,750
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 40,608	\$ 39,849
Current portion of long-term debt	5,143	5,143
Accrued expenses and other current liabilities	33,390	30,041
Accrued compensation and related benefits	35,541	35,356
Deferred revenues	55,061	52,908
Total current liabilities	169,743	163,297
Non-current liabilities		
Long-term debt	25,857	27,143
Deferred tax liabilities	4,141	7,069
Deferred revenues - long-term	15,139	15,200
Other non-current liabilities	30,785	32,899
Total non-current liabilities	75,922	82,311
Total liabilities	\$ 245,665	\$ 245,608
Contingencies (see note 12)		
Redeemable non-controlling interests	1,579	1,635
Equity		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousands shares; 53,710 thousands shares and 53,631 thousands shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	145	145
Additional paid-in capital	2,667,023	2,663,274
Accumulated other comprehensive loss	(5,337)	(7,023)
Accumulated deficit	(1,533,403)	(1,523,906)
Equity attributable to Stratasys Ltd.	1,128,428	1,132,490
Non-controlling interests	(17)	17
Total equity	1,128,411	1,132,507
Total liabilities and equity	\$ 1,375,655	\$ 1,379,750

The accompanying notes are an integral part of these consolidated financial statements.

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Operations and Comprehensive Loss

<i>in thousands, except per share data</i>	Three Months Ended March 31,	
	2018	2017
Net sales		
Products	\$ 103,917	\$ 115,087
Services	49,916	48,075
	<u>153,833</u>	<u>163,162</u>
Cost of sales		
Products	45,218	54,480
Services	32,965	31,802
	<u>78,183</u>	<u>86,282</u>
Gross profit	75,650	76,880
Operating expenses		
Research and development, net	25,110	24,634
Selling, general and administrative	57,005	64,875
	<u>82,115</u>	<u>89,509</u>
Operating loss	(6,465)	(12,629)
Financial income, net	8	256
Loss before income taxes	(6,457)	(12,373)
Income tax expenses	601	1,326
Share in losses of associated companies	(6,073)	(288)
Net loss	\$ (13,131)	\$ (13,987)
Net loss attributable to non-controlling interests	(90)	(130)
Net loss attributable to Stratasys Ltd.	<u>\$ (13,041)</u>	<u>\$ (13,857)</u>
Net loss per ordinary share attributable to Stratasys Ltd. - basic and diluted	\$ (0.24)	\$ (0.26)
Weighted average ordinary shares outstanding - basic and diluted	53,657	52,690
Comprehensive loss		
Net loss	\$ (13,131)	\$ (13,987)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	2,011	713
Unrealized gains (losses) on derivatives designated as cash flow hedges	(325)	523
Other comprehensive income, net of tax	<u>1,686</u>	<u>1,236</u>
Comprehensive loss	(11,445)	(12,751)
Less: comprehensive loss attributable to non-controlling interests	(90)	(130)
Comprehensive loss attributable to Stratasys Ltd.	<u>\$ (11,355)</u>	<u>\$ (12,621)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Cash Flows

<i>in thousands</i>	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (13,131)	\$ (13,987)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	15,372	16,566
Stock-based compensation	3,415	3,904
Foreign currency transaction gain	(1,678)	(2,744)
Deferred income taxes	(922)	(791)
Share in losses of associated companies	6,073	288
Other non-cash items, net	709	1,673
Change in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	13,990	6,145
Inventories	(3,573)	1,028
Net investment in sales-type leases	2,244	3,344
Other current assets and prepaid expenses	266	(280)
Other non-current assets	(304)	275
Accounts payable	981	3,845
Other current liabilities	4,110	4,043
Deferred revenues	1,594	333
Other non-current liabilities	(2,094)	2,035
Net cash provided by operating activities	27,052	25,677
Cash flows from investing activities		
Purchase of property and equipment	(7,607)	(6,315)
Investment in unconsolidated entities	(5,000)	(2,548)
Purchase of intangible assets	(271)	(515)
Proceeds from sale of plant and property	3,770	-
Other investing activities	(162)	(80)
Net cash used in investing activities	(9,270)	(9,458)
Cash flows from financing activities		
Repayment of current portion of long-term debt	(1,286)	(929)
Proceeds from exercise of stock options	1,002	528
Net cash used in financing activities	(284)	(401)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	296	1,419
Net change in cash, cash equivalents and restricted cash	17,794	17,237
Cash, cash equivalents and restricted cash, beginning of period	329,359	280,623
Cash, cash equivalents and restricted cash, end of period	\$ 347,153	\$ 297,860
Supplemental disclosures of cash flow information:		
Transfer of fixed assets to inventory	109	129
Transfer of inventory to fixed assets	320	1,357

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Note 1. Business Description and Basis of Presentation

Stratasys Ltd. (collectively with its subsidiaries, the “Company”) is global provider of applied additive technology solutions for a broad range of industries. The Company focuses on customers’ business requirements and seeks to create new value for its customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. The Company operates a 3D printing ecosystem of solutions and expertise, comprised of: 3D printers ranging from entry-level desktop 3D printers to systems for rapid prototyping (“RP”) and large production systems for direct digital manufacturing (“DDM”) based on precise fused deposition modeling (“FDM”) and PolyJet technologies; advanced materials for the use with its 3D printers; software with voxel level control; application-based services; on-demand parts; and key partnerships.

The condensed consolidated interim financial statements include the accounts of Stratasys Ltd. and its subsidiaries. All intercompany accounts and transactions, including profits from intercompany sales not yet realized outside the Company, have been eliminated in consolidation.

The consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year. Certain financial information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. The reader is referred to the audited consolidated financial statements and notes thereto for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (the “SEC”) as part of the Company’s Annual Report on Form 20-F for such year on February 28, 2018.

Note 2. New Accounting Pronouncements

Accounting Pronouncements Adopted in the Current Period

In February 2017, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) which applies to the derecognition of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales, unless other specific guidance applies. The new ASU does not apply to the derecognition of businesses or financial assets, or to contracts with customers. According to the new ASU, when an entity transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest in the respective nonfinancial asset, the entity will measure the retained interest at fair value. This will result in gain or loss recognition upon the sale of a controlling interest in a nonfinancial asset. As a result of these changes, the same accounting treatment will be applied to a transfer of a nonfinancial asset in exchange for the non-controlling ownership interest in another entity or other consideration. Previous guidance generally prohibited gain recognition on the retained interest. The Company adopted this guidance on January 1, 2018, which resulted in no material impact on its consolidated financial position or results of operations.

In November 2016, the FASB issued an ASU which requires entities to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this guidance in the first quarter of 2018 utilizing the retrospective transition method. The adoption of this ASU did not have a material impact on its consolidated financial statements.

In October 2016, the FASB issued an ASU which eliminates the exception for an intra-entity transfer of an asset other than inventory. This ASU requires that the income tax consequences of an intra-entity asset transfer other than inventory are recognized at the time of the transfer, rather than when the transferred asset is sold to a third party or otherwise recovered through use. The Company has adopted this guidance on January 1, 2018, utilizing the modified retrospective method, resulting in an increase of \$2.1 million in retained earnings with a corresponding effect on deferred taxes balances for the cumulative-effect adjustments as of the date of adoption.

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

In January 2016, the FASB issued an ASU which effects changes to the current measurement model that primarily affect all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting), financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new ASU equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) with readily determinable fair values will generally be measured at fair value through earnings. Equity investments that do not have readily determinable fair values may be measured at fair value or at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer. The Company adopted this guidance on January 1, 2018, which resulted in no impact on its consolidated financial position or results of operations for the current period.

In May 2014, and in following related amendments, the FASB issued a new comprehensive revenue recognition guidance on revenue from contracts with customers (hereinafter "Standard") that superseded the previous revenue recognition guidance. The Standard provides a unified model to determine when and how revenue is recognized. The core principle of the Standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the Standard requires the deferral and amortization of incremental costs incurred to obtain a contract. The primary contract acquisition costs for the Company are sales commissions. Under previous GAAP, the Company expenses sales commissions as incurred while under the Standard certain of such costs are classified as an asset (which is presented under other non-current assets in the Company's consolidated balance sheets) and amortized over a period that approximates the timing of revenue recognition on the underlying contracts. The Standard also allows entities to apply certain practical expedients at their discretion. Accordingly, the Company elected the practical expedient to analyze the contract acquisition cost only on uncompleted contracts. The Company adopted the Standard using the modified retrospective approach on January 1, 2018, resulting in an increase of \$1.4 million in retained earnings with a corresponding effect on other non-current assets for the cumulative-effect adjustments recorded due to the deferral and amortization of incremental costs incurred to obtain a contract as of the date of adoption. Refer also to Note 6 for further details.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued a new ASU which expands the activities that may be eligible to qualify for hedge accounting, simplifies the rules for reporting hedging transactions and better portrays the economic results of risk management activities in the financial statements. It also amends certain presentation and disclosure requirements and eases certain hedge effectiveness assessment requirements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new guidance on its consolidated financial statements.

In February 2016, the FASB issued a new ASU which revises lease accounting guidance. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability for all leases, other than leases that meet the definition of a short-term lease. The liability and the right-of-use asset arising from the lease will be measured as the present value of the lease payments. In addition, this guidance requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition approach, with certain practical expedients. While the Company is currently evaluating the impact of the adoption of the new lease accounting guidance on its consolidated financial statements, the Company expects that the adoption of the new guidance may materially affect the amounts of total assets and total liabilities reported in its consolidated financial statements upon adoption.

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

Note 3. Business Activities

In March 2018, the Company, jointly with certain employees and one of the Company's board members, formed an entity for one of its research and development projects ("Evolve"). Evolve is considered a variable interest entity. The Company does not consolidate the results of operations of Evolve, commencing March 2018, as the Company no longer holds the power to direct the activities that most significantly affect the economic performance of Evolve. Following this transaction, the Company transferred cash, long-lived assets and the related IP into Evolve and retained a minority equity interest in Evolve. As a result of this transaction, the Company recorded \$1.6 million of non-cash charges under its operating expenses and \$5.0 million under share in losses of associated companies due to the write-off of its related in-process research and development project.

In March 2018, as part of its continuous efforts to rationalize its operating model, the Company sold one of its facilities (which included land and building) in Eden Prairie, Minnesota for a total consideration of approximately \$3.7 million in cash. As a result of the sale of its facility, the Company recognized a gain of approximately \$1.6 million included in selling, general and administrative expenses.

Note 4. Inventories

Inventories, net consisted of the following:

	March 31, 2018	December 31, 2017
	U.S. \$ in thousands	
Finished goods	\$ 67,910	\$ 63,234
Work-in-process	2,770	2,271
Raw materials	49,385	50,212
	<u>\$ 120,065</u>	<u>\$ 115,717</u>

Note 5. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company's goodwill for the three-months ended March 31, 2018 were as follows:

	U.S. \$ in millions
Goodwill as of January 1, 2018	\$ 387.1
Translation differences	0.3
Goodwill as of March 31, 2018	<u>\$ 387.4</u>

During the fourth quarter of 2017, the Company performed a quantitative assessment for goodwill impairment for its Stratasys-Objet reporting unit.

Following its quantitative assessment, the Company concluded that the fair value of its Stratasys-Objet reporting unit exceeded its carrying amount by approximately 7%, with a carrying amount of goodwill assigned to this reporting unit in an amount of \$387 million.

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

When evaluating the fair value of its Stratasys-Objet reporting unit the Company used a discounted cash flow model which utilized Level 3 measures that represent unobservable inputs into the valuation method. Key assumptions used to determine the estimated fair value include: (a) expected cash flows for 5 years following the assessment date which were based on, among other factors, expected revenue growth, costs to produce, operating profit margins and estimated capital needs; (b) an estimated terminal value that utilized a terminal year growth rate of 3.1% that was determined based on the growth prospects of the reporting unit; and (c) a discount rate of 14.0% based on management's best estimate of the after-tax weighted average cost of capital. If any of these were to vary materially from the Company's estimates, the Company could face impairment of goodwill allocated to this reporting unit in the future.

A hypothetical decrease in the growth rate of 1% or an increase of 1% to the discount rate would have reduced the fair value of Stratasys-Objet reporting unit by approximately \$48 million and \$88 million, respectively.

Based on the Company's assessment as of December 31, 2017, no goodwill was determined to be impaired.

During the first quarter of 2018 the Company reaffirmed that no significant events or circumstances occurred that contradict the assumptions and data used in the annual impairment test performed in the fourth quarter of 2017.

Determining the fair value of the Stratasys-Objet reporting unit requires significant judgment, including judgments about the appropriate discount rates, terminal growth rates, weighted average costs of capital and the amount and timing of projected future cash flows. The Company will continue to monitor the fair value of its Stratasys-Objet reporting unit to determine whether events and changes in circumstances such as deterioration in the business climate or operating results, significant decline in our share price, changes in management's business strategy or downward adjustments to the Company's cash flows projections, warrant further interim impairment testing.

Other Intangible Assets

Other intangible assets consisted of the following:

	March 31, 2018			December 31, 2017		
	Carrying Amount,		Net	Carrying Amount,		Net
	Net of Impairment	Accumulated Amortization	Book Value	Net of Impairment	Accumulated Amortization	Book Value
	U.S. \$ in thousands					
Developed technology	\$ 303,402	\$ (224,922)	\$ 78,480	\$ 304,601	\$ (220,420)	\$ 84,181
Patents	18,512	(14,115)	\$ 4,397	19,708	(14,279)	5,429
Trademarks and trade names	27,271	(18,590)	\$ 8,681	27,248	(18,245)	9,003
Customer relationships	106,364	(65,766)	\$ 40,598	106,203	(63,435)	42,768
Capitalized software development costs	19,541	(18,886)	\$ 655	19,541	(18,800)	741
	\$ 475,090	\$ (342,279)	\$ 132,811	\$ 477,301	\$ (335,179)	\$ 142,122

Amortization expense relating to intangible assets for the three-month periods ended March 31, 2018 and 2017 was approximately \$8.1 million and \$8.7 million, respectively.

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

As of March 31, 2018, the estimated amortization expense relating to intangible assets currently subject to amortization for each of the following periods was as follows:

	Estimated	
	amortization expense	
	(U.S. \$ in thousands)	
Remaining 9 months of 2018	\$	24,251
2019		31,964
2020		31,627
2021		31,056
2022		9,921
Thereafter		3,992
Total		132,811

Note 6. Revenue Recognition

Effective January 1, 2018, the Company adopted the new accounting standard related to the recognition of revenue in contracts with customers using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Accordingly, results for reporting periods beginning after January 1, 2018 are presented under the new accounting standard, while prior period amounts have not been adjusted and continue to be reported in accordance with the previous revenue recognition guidance. The impact to revenue and results of operations for the three months ended March 31, 2018 compared to the same period in 2017 was not material.

The Company derives revenues from sales of additive manufacturing systems, consumables and services. The Company sells its products directly through its sales force and independent sales agents and indirectly through authorized resellers.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Revenue is measured as the amount of consideration expected to receive in exchange for transferring goods or providing services to the end customer or to the reseller. The amount of consideration is usually at fixed price at the contract inception. Taxes assessed by various government entities, such as sales, use and value-added taxes, collected at the time of sale are excluded from revenue. Shipping and handling costs billed to customers are included in revenue.

Revenue from products, which consist systems and consumables, is recognized when the customer or the reseller has obtained control of the goods, in most cases in point in time based on the shipping terms. The Company recognizes revenue on sales to resellers when the reseller has economic substance apart from the Company and the reseller is considered the principal for the transaction with the end-user client. Service revenue derive from service type warranty and from the Company's direct manufacturing parts services. Revenue from service type warranty under contract is recognized ratably on a straight-line basis over the time of the service, as control is transferred over time or as services are performed if not under contract. For direct manufacturing parts, control is transferred at a point in time, usually upon shipment of the parts.

For multiple performance obligations arrangements, such as when selling a system with a service type warranty, the Company accounts for the individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price ("SSP") basis and revenue is recognized for each performance obligation when control has passed. In most cases, the Company is able to establish SSP based on the observable prices of services sold separately in comparable circumstances to similar clients and for products based on the Company's best estimates of the price at which the Company would have sold the product regularly on a stand-alone basis. The Company reassess the SSP on a periodic basis or when facts and circumstances change.

In assessing collectability as part of the revenue recognition process, the Company considers a number of factors in the evaluation of the creditworthiness of the customer, including past due amounts, payment history and financial condition. In some cases where collectability is not assured, payment terms are set partially or entirely as prepayment or customers may be required to furnish letters of credit.

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

Deferred Revenues and Contract Assets

The following table reflects the changes in our deferred revenue as of March 31, 2018:

	March 31, 2018	December 31, 2017
	U.S. \$ in thousands	
Deferred revenue *	70,200	68,108

* Includes \$15.1 million and \$15.2 million under long term deferred revenue in the Company's consolidated balance sheets as of March 31, 2018 and December 31, 2017, respectively.

The Company provides customers with an initial service type warranty, usually for a period of one to three years, and defers a portion of the revenue from the related printer at the time of the sale. The Company also offers customers an option to purchase an additional service type warranty via a contract ranging generally from one to three years. Deferred maintenance revenue is recognized ratably, on a straight -line basis, over the period of the service. Deferred revenues are derived mainly from these service type warranty contracts.

Revenue recognized in the three month ended March 31, 2018 that was included in deferred revenue balance as of January 1, 2018 was \$19.2 million.

The Company expects to recognize revenue from deferred revenues in amounts of approximately \$55.1 million in the next 12 month, \$9.9 million in second year, and \$5.2 million thereafter.

Contract assets are recorded when the Company's right to consideration is conditional on constraints other than passage of time. The Company had no material contract assets as of March 31, 2018.

Incremental Costs of Obtaining a Contract

Sales commissions earned mainly by the Company sales agents are considered incremental costs of obtaining a contract with a customer. The majority of the Sales commissions are not subject to capitalization as the commission expense is recognized as the related revenue is recognized. Sales commissions for initial contracts related to the service type warranty are deferred and then amortized on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. The Company determined the period of benefit by taking into consideration customer contracts including renewals, the technology and other factors. Amortization expense is included in Selling, general and administrative expenses on the consolidated statements of operations.

The Company recorded the cumulative effect of deferred commission as an adjustment to the opening balance of retained earnings in the amount of \$1.4 million. As of March 31, 2018, the deferred commission amounted to \$1.7 million.

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

Note 7. Loss Per Share

The following table presents the numerator and denominator of the basic and diluted net loss per share computations for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
In thousands, except per share amounts		
Numerator:		
Net loss attributable to Stratasys Ltd. for basic and diluted loss per share	\$ (13,041)	\$ (13,857)
Denominator:		
Weighted average shares – denominator for basic and diluted net loss per share	53,657	52,690
Net loss per share attributable to Stratasys Ltd.		
Basic	\$ (0.24)	\$ (0.26)
Diluted	\$ (0.24)	\$ (0.26)

The computation of diluted net loss per share excluded share awards of 3.3 million shares and 2.5 million shares for the three months ended March 31, 2018 and 2017, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

Note 8. Income Taxes

The Company had a negative effective tax rate of 9.3% for the three-month period ended March 31, 2018 compared to a negative effective tax rate of 10.7% for the three-month period ended March 31, 2017. The Company's effective tax rate was primarily impacted by different geographic mixes of earnings and losses.

Note 9. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

The fair value hierarchy is categorized into three Levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Financial instruments measured at fair value

The following tables summarize the Company's financial assets and liabilities that are carried at fair value on a recurring basis, in its consolidated balance sheets:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	<u>(U.S. \$ in thousands)</u>	
Assets:		
Foreign exchange forward contracts not designated as hedging instruments	\$ 158	\$ 90
Foreign exchange forward contracts designated as hedging instruments	24	263
Liabilities:		
Foreign exchange forward contracts not designated as hedging instruments	(1,140)	(921)
Foreign exchange forward contracts designated as hedging instruments	(20)	-
	<u>\$ (978)</u>	<u>\$ (568)</u>

The Company's foreign exchange forward contracts are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs, including interest rate curves and both forward and spot prices for currencies (Level 2 inputs).

Other financial instruments consist mainly of cash and cash equivalents, current and non-current receivables, net investment in sales-type leases, bank loan, accounts payable and other current liabilities. The fair value of these financial instruments approximates their carrying values.

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

Note 10. Derivative instruments and hedging activities

Since the Company conducts its operations globally, it is exposed to global market risks and to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign currency exchange rates. The Company enters into transactions involving foreign currency exchange derivative financial instruments. The Company manages its foreign currency exposures on a consolidated basis, which allows the Company to net exposures and take advantage of any natural hedging. The transactions are designed to manage the Company's net exposure to foreign currency exchange rates and to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The Company does not enter into derivative transactions for trading purposes.

The Company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and forecasted transactions denominated in the New Israeli Shekel ("NIS"), the Euro and the Japanese Yen. The gains and losses on the hedging instruments partially offset losses and gains on the hedged items. Financial markets and currency volatility may limit the Company's ability to hedge these exposures.

The following table summarizes the consolidated balance sheets classification and fair values of the Company's derivative instruments:

Balance sheet location	Fair Value		Notional Amount	
	March 31,	December 31,	March 31,	December 31,
	2018	2017	2018	2017
U. S. \$ in thousands				
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	\$ 121	\$ 90	\$ 35,453	\$ 22,036
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	24	263	7,788	13,169
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	(1,103)	(921)	48,018	65,668
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	(20)	-	8,460	-
	<u>\$ (978)</u>	<u>\$ (568)</u>	<u>\$ 99,719</u>	<u>\$ 100,873</u>

As of March 31, 2018, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$83.5 million, and were used to reduce foreign currency exposures related to the Euro, New Israeli Shekel (the "NIS"), Japanese Yen, Korean Won and Chinese Yuan. With respect to such derivatives, loss of \$2.3 million and \$0.3 million were recognized under financial income, net for the three-month periods ended March 31, 2018 and 2017, respectively. Such losses or gains partially offset the foreign currencies revaluation changes of the balance sheet items. These foreign currencies revaluation changes are also recognized under financial income, net.

As of March 31, 2018, the Company had in effect foreign exchange forward contracts, designated as cash flow hedge for accounting purposes, for the conversion of \$16.2 million into NIS. The Company uses short-term cash flow hedge contracts to reduce its exposure to variability in expected future cash flows resulting mainly from payroll costs denominated in NIS. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss. These contracts mature through September 2018.

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

Note 11. Equity

a. Stock-based compensation plans

Stock-based compensation expenses for equity-classified stock options and RSUs were allocated as follows:

	Three Months Ended	
	March 31,	
	2018	2017
	U.S. \$ in thousands	
Cost of sales	\$ 387	\$ 643
Research and development, net	742	849
Selling, general and administrative	2,286	2,412
Total stock-based compensation expenses	<u>\$ 3,415</u>	<u>\$ 3,904</u>

A summary of the Company's stock option activity for the three months ended March 31, 2018 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2018	3,330,953	\$ 31.53
Exercised	(17,402)	17.26
Forfeited	(187,859)	27.93
Options outstanding as of March 31, 2018	3,125,692	\$ 31.83
Options exercisable as of March 31, 2018	<u>1,408,599</u>	<u>\$ 43.15</u>

The outstanding options generally have a term of ten years from the grant date. Options granted become exercisable over the vesting period, which is normally a four-year period beginning on the grant date, subject to the employee's continuous service to the Company. The fair value of stock options is determined using the Black-Scholes model.

During the three-month periods ended March 31, 2018 and 2017, the Company issued 17,402 shares and 35,769 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$0.3 million and \$0.5 million for the three-month periods ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, the unrecognized compensation cost of \$18.8 million related to all unvested, equity-classified stock options is expected to be recognized as an expense over a weighted-average period of 2.6 years.

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

A summary of the Company's RSUs activity for the three months ended March 31, 2018 is as follows:

	Number of RSUs	Weighted Average Grant	
		Date Fair Value	
Unvested RSUs outstanding as of January 1, 2018	302,163	\$	30.88
Forfeited	(17,569)		33.41
Vested	(60,317)		30.58
Unvested RSUs outstanding as of March 31, 2018	224,277	\$	30.22

The fair value of RSUs is determined based on the quoted price of the Company's ordinary shares on the date of the grant.

As of March 31, 2018, the unrecognized compensation cost of \$5.2 million related to all unvested, equity-classified RSUs is expected to be recognized as expense over a weighted-average period of 2.6 years.

b. Accumulated other comprehensive loss

The following tables present the changes in the components of accumulated other comprehensive income (loss), net of taxes, for the three months ended March 31, 2018 and 2017, respectively:

	Three months ended March 31, 2018		
	Net unrealized gain (loss) on cash flow hedges	Foreign currency translation adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2018	\$ 330	\$ (7,353)	\$ (7,023)
Other comprehensive income (loss) before reclassifications	(90)	2,011	1,921
Amounts reclassified from accumulated other comprehensive loss	(235)	-	(235)
Other comprehensive income (loss)	(325)	2,011	1,686
Balance as of March 31, 2018	\$ 5	\$ (5,342)	\$ (5,337)

	Three months ended March 31, 2017		
	Net unrealized gain (loss) on cash flow Hedges	Foreign currency translation adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2017	\$ (24)	\$ (13,455)	\$ (13,479)
Other comprehensive income (loss) before reclassifications	793	713	1,506
Amounts reclassified from accumulated other comprehensive loss	(270)	-	(270)
Other comprehensive income	523	713	1,236
Balance as of March 31, 2017	\$ 499	\$ (12,742)	\$ (12,243)

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

Note 12. Contingencies

Patent Law-Based Claim

On November 23, 2017, a former employee, whose employment had been terminated by the Company in 2008 and who had previously unsuccessfully filed a suit against the Company, brought an additional proceeding against the Company under Section 134 of the Israeli Patent Law seeking compensation and royalties for service inventions he invented while he served as an employee of the Company. In this new proceeding, the former employee claims to be entitled to receive royalties in an amount equal to: (a) 20% of the benefits, revenues and /or savings generated by the Company in the past and in the future, including the rise in the value of the Company, as determined in the merger with Stratasy Inc., which took place in December 2012; (b) 20% of the gross profit generated by the Company in the past and 9% of the gross profit produced and that will be produced by the Company; (c) 20% of the gross profit generated by the Company in the past and the relative share of the former Objet entity of the Company in the total gross profit produced and that will be produced by the Company; or (d) 20% of the value of the service inventions at issue. The former employee further sought an order of accounts. The Company rejects the claims that serve as a basis for the proceeding and intends to defend against them vigorously.

The Company is a party to various other legal proceedings, the outcome of which, in the opinion of management, will not have a significant adverse effect on the financial position or profitability of the Company.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes included as Exhibit 99.1 to the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review and Prospects is attached, or the Form 6-K. The discussion below contains forward-looking statements (within the meaning of the United States federal securities laws) that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Forward-Looking Statements and Factors that May Affect Future Results of Operations", below, as well in the "Risk Factors" in Item 3.D of our Annual Report on Form 20-F for the year ended December 31, 2017, or our 2017 Annual Report.

Overview of Business and Trend Information

We are a leading global provider of applied additive technology solutions for industries including aerospace, automotive, healthcare, consumer products and education. We focus on customers' business requirements and seek to create new value for our customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. We operate a 3D printing ecosystem of solutions and expertise, comprised of advanced materials; software with voxel level control; precise, repeatable and reliable fused deposition modeling (FDM) and PolyJet 3D printers; application-based services; on-demand parts and key partnerships. We strive to ensure that our solutions are integrated seamlessly into each customer's evolving workflow. Our applications are industry-specific and geared towards accelerating business processes, optimizing value chains and driving business performance improvements. Our customers range from individuals and smaller businesses to large, global enterprises, and we include a number of Fortune 100 companies among our customers.

Our 3D printers include systems ranging from entry-level desktop 3D printers to 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 related services offerings. We offer a powerful range of additive manufacturing materials, including clear, rubberlike and biocompatible photopolymers, and tough high-performance thermoplastics. We believe that the range of 3D printing consumable materials that we offer, consisting of 58 FDM cartridge-based materials, 37 PolyJet cartridge-based materials, 158 non-color digital materials, and over 500,000 color variations is the widest in the industry. Our service offerings include Stratasys Direct Manufacturing, or SDM, printed parts services which offers AM capabilities encompassing a wide range of technologies allowing for plastic and metal parts for rapid prototyping and production processes, as well as related professional services.

We conduct our business globally and provide products and services to our global customer base through our main operational facilities which are located in Israel, the United States, Germany and Hong Kong as well through our offices in China, Italy, Brazil, India, Japan and Korea. Our extensive global reach is well-positioned through a network of approximately 200 resellers and selling agents around the world and an online channel. We have approximately 2,300 employees and hold more than 1,200 granted or pending additive manufacturing patents globally.

Summary of Financial Results

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. In the opinion of our management, all adjustments considered necessary for a fair statement of the unaudited condensed consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual results, on a GAAP basis, for the three months ended March 31, 2018 with the corresponding period in 2017.

Results of Operations

Comparison of Three Months Ended March 31, 2018 to Three Months Ended March 31, 2017

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

	Three Months Ended March 31,			
	2018		2017	
	U.S. \$ in thousands	% of Revenues	U.S. \$ in thousands	% of Revenues
Revenues	\$ 153,833	100.0%	\$ 163,162	100.0%
Cost of revenues	78,183	50.8%	86,282	52.9%
Gross profit	75,650	49.2%	76,880	47.1%
Research and development, net	25,110	16.3%	24,634	15.1%
Selling, general and administrative	57,005	37.1%	64,875	39.8%
Operating loss	(6,465)	-4.2%	(12,629)	-7.7%
Financial income, net	8	0.0%	256	0.2%
Loss before income taxes	(6,457)	-4.2%	(12,373)	-7.6%
Income tax expenses	601	0.4%	1,326	0.8%
Share in losses of associated companies	(6,073)	-3.9%	(288)	-0.2%
Net loss attributable to non-controlling interests	(90)	-0.1%	(130)	-0.1%
Net loss attributable to Stratasy Ltd.	(13,041)	-8.5%	(13,857)	-8.5%

Discussion of Results of Operations

Revenues

Our products and services revenues in the first quarter of each of 2018 and 2017, as well as the percentage change reflected thereby, were as follows:

	Three Months Ended March 31,		
	2018	2017	% Change
	U.S. \$ in thousands		
Products	\$ 103,917	\$ 115,087	-9.7%
Services	49,916	48,075	3.8%
	<u>\$ 153,833</u>	<u>\$ 163,162</u>	-5.7%

Products Revenues

Revenues derived from products (including AM systems and consumable materials) decreased by \$11.2 million, or 9.7%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The decrease in products revenues was driven by a decrease in our systems revenues and was partially offset by an increase in our consumables revenues.

Systems revenues for the three months ended March 31, 2018 decreased by 20.7% as compared to the three months ended March 31, 2017. The decrease in systems revenues was driven primarily by a decrease in our systems revenues in North America and by lower revenues from customers in government and other key verticals during the period.

Consumables revenues for the three months ended March 31, 2018 increased by 1.7% as compared to the three months ended March 31, 2017. The modest increase, reflects the impact of the reduction in system sales in North America and the associated point of sale consumable purchases typically made, as well as consumables mix driven by utilization pattern associated with our technology mix within our installed base.

Services Revenues

Services revenues (including SDM, maintenance contracts, spare parts and other services) increased by \$1.8 million for the three months ended March 31, 2018, or 3.8%, as compared to the three months ended March 31, 2017. Within services revenues, customer support revenue, which includes revenue generated mainly by maintenance contracts on our systems, increased by 7.3%, reflecting our growing installed base of systems and our effective support solutions suitable for end-users' needs.

Revenues by Region

Revenues and the percentage of revenues by region for the first quarter of each of 2018 and 2017, as well as the percentage change in revenues in each such region reflected thereby, were as follows:

	Three Months Ended March 31,				
	2018		2017		% Change
	U.S. \$ in thousands	% of Revenues	U.S. \$ in thousands	% of Revenues	
Americas*	\$ 87,914	57.1%	\$ 101,749	62.3%	-13.6%
EMEA	38,971	25.3%	34,065	20.9%	14.4%
Asia Pacific	26,948	17.6%	27,348	16.8%	-1.5%
	<u>\$ 153,833</u>	<u>100.0%</u>	<u>\$ 163,162</u>	<u>100.0%</u>	<u>-5.7%</u>

* Represent the United States, Canada and Latin America

Revenues in the Americas region decreased by \$13.8 million, or 13.6%, to \$87.9 million for the three months ended March 31, 2018, compared to \$101.8 million for the three months ended March 31, 2017. The decrease was primarily driven by lower system revenues.

Revenues in the EMEA region increased by \$4.9 million, or 14.4%, to \$39.0 million for the three months ended March 31, 2018, compared to \$34.1 million for the three months ended March 31, 2017. The increase reflects higher products and services revenues. In local currencies terms, revenues in the EMEA region for the three months ended March 31, 2018 increased by 1.1% as compared to the three months ended March 31, 2017. Revenues in the EMEA region were favorably impacted by approximately \$4.5 million, on a constant currency basis when using prior period's exchange rates.

Revenues in the Asia Pacific region decreased by \$0.4 million, or 1.5%, to \$26.9 million for the three months ended March 31, 2018, compared to \$27.3 million for the three months ended March 31, 2017. The decrease reflects lower products revenues, partially offset by increased services revenues.

Gross Profit

Gross profit for our products and services for the first quarter of each of 2018 and 2017, as well as the percentage change reflected thereby, were as follows:

	Three Months Ended March 31,		Change in %
	2018	2017	
	U.S. \$ in thousands		
Gross profit attributable to:			
Products	\$ 58,699	\$ 60,607	-3.1%
Services	16,951	16,273	4.2%
	<u>\$ 75,650</u>	<u>\$ 76,880</u>	<u>-1.6%</u>

Gross profit as a percentage of revenues for our products and services was as follows for the first quarter of each of 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Gross profit as a percentage of revenues from:		
Products	56.5%	52.7%
Services	34.0%	33.8%
Total gross profit	<u>49.2%</u>	<u>47.1%</u>

Gross profit attributable to products revenues decreased by \$1.9 million, or 3.1%, to \$58.7 million for the three months ended March 31, 2018, compared to gross profit of \$60.6 million for the three months ended March 31, 2017. Gross profit attributable to products revenues as a percentage of products revenues increased to 56.5% for the three months ended March 31, 2018, compared to gross profit of 52.7% for the three months ended March 31, 2017.

The increase in gross profit attributable to products revenues was primarily driven by product mix as consumables revenues ratio within our total products revenues in the three months ended March 31, 2018 was higher compared to the three months ended March 31, 2017, as well as lower amortization expense.

Gross profit attributable to services revenues increased by \$0.7 million, or 4.2%, to \$17.0 million for the three months ended March 31, 2018, compared to \$16.3 million for the three months ended March 31, 2017. Gross profit attributable to services revenues as a percentage of services revenues in the three months ended March 31, 2018 increased to 34.0%, as compared to 33.8% for the three months ended March 31, 2017. Our gross profit from services revenues was impacted by the mix between our customer service business, and our direct manufacturing paid-parts business whose gross margin was impacted by the different technologies that make up the product mix.

Operating Expenses

The amount of each type of operating expense for the first quarter of each of 2018 and 2017, as well as the percentage change reflected thereby, and total operating expenses as a percentage of our total revenues in each such quarter, were as follows:

	Three Months Ended March 31,		
	2018	2017	% Change
	U.S. \$ in thousands		
Research and development, net	\$ 25,110	\$ 24,634	1.9%
Selling, general & administrative	57,005	64,875	-12.1%
	\$ 82,115	\$ 89,509	-8.3%
Percentage of revenues	53.4%	54.9%	

Research and development expenses, net increased by \$0.5 million, or 1.9%, to \$25.1 million for the three months ended March 31, 2018, compared to \$24.6 million for the three months ended March 31, 2017. The amount of research and development expenses constituted 16.3% of our revenues for the three months ended March 31, 2018, as compared to 15.1% for the three months ended March 31, 2017.

Our research and development expenses were impacted by timing of projects' spending and products launches, as well as payroll related expenses. The moderate increase in research and development expenses, net reflects our commitment to invest in long-term initiatives that include advancements in our core FDM and PolyJet technologies, as well as our new metal additive manufacturing platform, advanced composite materials, and software and application development.

Selling, general and administrative expenses decreased by \$7.9 million, or 12.1%, to \$57.0 million for the three months ended March 31, 2018, as compared to \$64.9 million for the three months ended March 31, 2017. The amount of selling, general and administrative expenses constituted 37.1% of our revenues for the three months ended March 31, 2018, as compared to 39.8% for the three months ended March 31, 2017.

The decrease in our selling, general and administrative expenses was primarily driven by lower commissions, lower depreciation and impairment expenses, as well as favorable impact resulted from the gain on sale of one of our facilities in Minnesota.

Operating Loss

Operating loss and operating loss as a percentage of our total revenues, were as follows for the first quarter of each of 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	U.S. \$ in thousands	
Operating loss	\$ (6,465)	\$ (12,629)
Percentage of revenues	-4.2%	-7.7%

Operating loss amounted to \$6.5 million for the three months ended March 31, 2018 compared to an operating loss of \$12.6 million for the three months ended March 31, 2017. The decrease in operating loss was primarily attributable to lower operating expenses for the three months ended March 31, 2018 compared to the three months ended March 31, 2017, as discussed above.

Financial Income, net

Financial income, net, which was primarily comprised of foreign currencies effects, interest income and interest expense, was \$0 million compared to financial income, net of \$0.3 million for the three months ended March 31, 2017.

Income Taxes

Income taxes and income taxes as a percentage of net loss before taxes for the first quarter of each 2018 and 2017, as well as the percentage change in each reflected thereby, were as follows:

	Three Months Ended		Change in %
	March 31,		
	2018	2017	
	U.S. \$ in thousands		
Income tax expense	\$ 601	\$ 1,326	-54.7%
As a percent of loss before income taxes	-9.3%	-10.7%	-13.1%

We had a negative effective tax rate of 9.3% for the three-month period ended March 31, 2018 compared to a negative effective tax rate of 10.7% for the three-month period ended March 31, 2017. Our effective tax rate was primarily impacted by different geographic mixes of earnings and losses.

Share in Losses of Associated Companies

Share in losses of associated companies reflect our proportionate share of the earnings of unconsolidated entities accounted for by using the equity method of accounting. During the three months ended March 31, 2018, our proportionate share of the earnings of our equity method investments was \$6.1 million compared to \$0.3 million in the three months ended March 31, 2017. The difference is primarily due to in-process research and development (IPR&D) write-off resulting from the Evolve transaction. For further information, see note 3 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

Net Loss Attributable to Stratasys Ltd. and Net Loss Per Share

Net loss attributable to Stratasys Ltd., and diluted net loss per share, for the first quarter of each of 2018 and 2017, were as follows:

	Three Months Ended March 31,	
	2018	2017
	U.S. \$ in thousands	
Net loss attributable to Stratasys Ltd.	\$ (13,041)	\$ (13,857)
Percentage of revenues	-8.5%	-8.5%
Diluted net loss per share	\$ (0.24)	\$ (0.26)

Net loss attributable to Stratasys Ltd. was \$13.0 million for the three months ended March 31, 2018 compared to net loss of \$13.9 million for the three months ended March 31, 2017. The decrease in the net loss attributable to Stratasys Ltd. was primarily attributable to decreased operating expenses, partially offset by an increase in share in losses of associated companies, as described above.

Diluted net loss per share was \$0.24 and \$0.26 for the three months ended March 31, 2018 and 2017, respectively. The weighted average fully diluted share count was 53.7 million for the three months ended March 31, 2018, compared to 52.7 million for the three months ended March 31, 2017.

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which excludes certain items as described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures are useful information for investors and shareholders of our company in gauging our results of operations (x) on an ongoing basis after excluding merger and acquisition related expense and reorganization-related charges or gains, and (y) excluding non-cash items such as stock-based compensation expenses, acquired intangible assets amortization, including intangible assets amortization related to equity method investments, impairment of long-lived assets, changes in fair value of obligations in connection with acquisitions and the corresponding tax effect of those items. We also exclude, when applicable, non-recurring significant tax charges or benefits that relate to prior periods which we do not believe are reflective of ongoing business and operating results. These non-GAAP adjustments either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the statement of operations, as assessed by management. These non-GAAP financial measures are presented to permit investors to more fully understand how management assesses our performance for internal planning and forecasting purposes. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all items indicated above during a period, which may not provide a comparable view of our performance to other companies in our industry. Investors and other readers should consider non-GAAP measures only as supplements to, not as substitutes for or as superior measures to, the measures of financial performance prepared in accordance with GAAP. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table below.

Reconciliation of GAAP to Non-GAAP Results of Operations

The following tables present the GAAP measures, the corresponding non-GAAP amounts and related non-GAAP adjustments for the applicable periods:

	Three Months Ended March 31,					
	2018	Non-GAAP	2018	2017	Non-GAAP	2017
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	\$ 75,650	\$ 5,599	\$ 81,249	\$ 76,880	\$ 6,614	\$ 83,494
Operating income (loss) (1,2)	(6,465)	11,387	4,922	(12,629)	16,658	4,029
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(13,041)	15,763	2,722	(13,857)	16,265	2,408
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (0.24)	\$ 0.29	\$ 0.05	\$ (0.26)	\$ 0.31	\$ 0.05
(1) Acquired intangible assets amortization expense		5,204			5,705	
Non-cash stock-based compensation expense		387			643	
Reorganization and other related costs		18			94	
Merger and acquisition related expense		(10)			172	
		<u>5,599</u>			<u>6,614</u>	
(2) Acquired intangible assets amortization expense		2,558			2,544	
Non-cash stock-based compensation expense		3,028			3,261	
Change in fair value of obligations in connection with acquisitions		-			696	
Reorganization and other related costs		1,671			1,686	
Gain from sale of plant and property		(1,563)			-	
Merger and acquisition related expense		94			1,857	
		<u>5,788</u>			<u>10,044</u>	
		<u>11,387</u>			<u>16,658</u>	
(3) Corresponding tax effect		(792)			(585)	
Amortization of acquired intangibles assets related to equity method investments		5,168			192	
		<u>\$ 15,763</u>			<u>\$ 16,265</u>	
(4) Weighted average number of ordinary shares outstanding-Diluted	53,657		53,721	52,690		53,641

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2018	2017
	U.S \$ in thousands	
Net loss	\$ (13,131)	\$ (13,987)
Depreciation and amortization	15,372	16,566
Deferred income taxes	(922)	(791)
Stock-based compensation	3,415	3,904
Other non-cash item, net	5,104	(783)
Change in working capital and other items	17,214	20,768
Net cash provided by operating activities	27,052	25,677
Net cash used in investing activities	(9,270)	(9,458)
Net cash provided by financing activities	(284)	(401)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	296	1,419
Net change in cash, cash equivalents and restricted cash	17,794	17,237
Cash, cash equivalents and restricted cash, beginning of period	329,359	280,623
Cash, cash equivalents and restricted cash, end of period	\$ 347,153	\$ 297,860

Our cash, cash equivalents and restricted cash balance increased to \$347.2 million on March 31, 2018 from \$329.4 million on December 31, 2017. The increase in cash and cash equivalents in the three months ended March 31, 2018 was primarily due to net cash provided by operating activities in an amount of \$27.1 million, partially offset by net cash used in investing activities of \$9.3 million.

Our cash, cash equivalents and restricted cash balance increased to \$297.9 million at March 31, 2017 from \$280.6 million at December 31, 2016.

Cash flows from operating activities

We generated \$27.1 million of cash from operating activities during the three months ended March 31, 2018. Our \$13.1 million net loss was adjusted due to non-cash charges including depreciation and amortization of \$15.4 million, share in losses of associated companies of \$6.1 million and stock-based compensation expense of \$3.4 million. In addition, changes in our working capital balances and other assets and liabilities increased our cash flow provided by operating activities by \$17.2 million. The favorable impact of the changes in our working capital balances reflect our close monitoring of our operating working capital including effective collection efforts.

We generated \$25.7 million of cash from operating activities during the three months ended March 31, 2017. The net loss of \$14.0 million was adjusted due to non-cash charges such as depreciation and amortization of \$16.6 million, stock-based compensation expense of \$3.9 million, as well as favorably affected by \$20.8 million of changes in working capital and other assets and liabilities.

Cash flows from investing activities

We used \$9.3 million of cash in our investing activities during the three months ended March 31, 2018. Cash was primarily used to invest \$7.6 million to purchase property and equipment. Our principal property and equipment purchases were for our new buildings complex under construction in Rehovot, Israel. The new facility in Rehovot, Israel, which will contain two buildings, houses our Israeli headquarters, research and development facilities and certain marketing activities.

In addition, we used \$5.0 million of cash for investments in unconsolidated entities and received \$3.8 million of cash for the sale of one of our operational facilities in Minnesota.

We used \$9.5 million of cash in our investing activities during the three months ended March 31, 2017. Cash was primarily used to invest \$6.3 million to purchase property and equipment and for certain strategic investments in unconsolidated entities.

Cash flows from financing activities

We used \$0.3 million of cash in our financing activities during the three months ended March 31, 2018. Cash used for financing activities was mainly attributed to the quarterly repayments of our long-term loan in an amount of \$1.3 million. Cash provided by financing activities was mainly attributed to proceeds of \$1.0 million from the exercise of stock options.

We used \$0.4 million of cash in our financing activities during the three months ended March 31, 2017. Cash used by financing activities was mainly attributed to the quarterly repayment of our long-term loan in an amount of \$0.9 million, partially offset by proceeds of \$0.5 million from the exercise of stock options.

Capital resources and capital expenditures

Our total current assets amounted to \$620.0 million as of March 31, 2018, of which \$347.2 million consisted of cash, cash equivalents and restricted cash. Total current liabilities amounted to \$169.7 million. Most of our cash and cash equivalents are held in banks in Israel, Switzerland and the U.S.

The credit risk related to our accounts receivable is limited due to the relatively large number of customers and their wide geographic distribution. In addition, we seek to reduce the credit exposures of our accounts receivable by credit limits, ongoing credit evaluation and account monitoring procedures.

We believe that we will have adequate cash and cash equivalents to fund our ongoing operations and that these sources of liquidity will be sufficient to satisfy our capital expenditure and debt requirements for the next twelve months.

Long-Term Bank Loan and Credit Line

In December 2016, we entered into a secured loan agreement with Bank Hapoalim Ltd. in connection with our new office facility in Israel, which agreement we refer to as the Bank Loan Agreement. Pursuant to the Bank Loan Agreement, our company borrowed \$26 million initially in December 2016, which we refer to as the Bank Loan, and secured a credit line for an additional \$24 million, or the Credit Line. Any loans drawn upon the Credit Line will be under similar terms as the Bank Loan. The Bank Loan will mature in December 2023 and is payable in equal consecutive quarterly principal installments of principal and accrued interest. Any early repayment of the Bank Loan is subject to, within the initial three year term of the Bank Loan, a maximum 1% penalty of the amount prepaid. The repayment of the Bank Loan is secured by a first-priority lien on all of our company's rights in the property of our new office facility in Israel. The Bank Loan bears interest at the rate of LIBOR plus 3.35%. The Bank Loan Agreement contains customary representations and warranties, affirmative covenants and negative covenants, which include, without limitation, restrictions on indebtedness, liens, investments, and certain dispositions with respect to the property secured by the lien. The Bank Loan Agreement also contains customary events of default that entitle the lender to cause any or all of our company's indebtedness to become immediately due and payable and to foreclose on the lien, and includes customary grace periods before certain events are deemed events of default. Borrowings under the Bank Loan Agreement are available mainly for the financing of our new facility in Israel. As of March 31, 2018, we had borrowed \$10 million under the Credit Line.

We believe that we were in compliance with all of the covenants under the Bank Loan Agreement, including those related to the Bank Loan and Credit Line as of March 31, 2018.

Critical Accounting Policies

We have prepared our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America. This has required us to make estimates, judgments, and assumptions that affected the amounts we reported. Actual results may differ from those estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in our 2017 Annual Report. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances.

Forward-Looking Statements and Factors That May Affect Future Results of Operations

Certain information included in or incorporated by reference into the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review is appended, or the Form 6-K, may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "may," "will," "could," "should," "expect," "anticipate," "intend," "estimate," "believe," "project," "plan," "assume" or other similar expressions, or negatives of those expressions, although not all forward-looking statements contain these identifying words.

These forward-looking statements may include, but are not limited to, statements regarding our future strategy, future operations, projected financial position, proposed products, estimated future revenues, projected costs, future prospects, the future of our industry and results that might be obtained by pursuing management's current plans and objectives.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to certain risks, uncertainties and assumptions that are difficult to predict. Our forward-looking statements are based on the information currently available to us and speak only as of the date of this Form 6-K. Over time, our actual results, performance or achievements may differ from those expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our shareholders. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

- the extent of our success at introducing new or improved products and solutions that gain market share;
- the extent of growth of the 3D printing market generally;
- impairments of goodwill or other intangible assets in respect of companies that we acquire;
- changes in our overall strategy, including as related to any reorganization activities and our capital expenditures;
- the extent of our success at efficiently and successfully integrating the operations of various companies that we have acquired or may acquire;
- the impact of shifts in prices or margins of the products that we sell or services we provide;
- the impact of competition and new technologies;
- global market, political and economic conditions, and in the countries in which we operate in particular;
- government regulations and approvals;
- litigation and regulatory proceedings;
- infringement of our intellectual property rights by others (including for replication and sale of consumables for use in our systems), or infringement of others' intellectual property rights by us;

- the extent of our success at maintaining our liquidity and financing our operations and capital needs;
- impact of tax regulations on our results of operations and financial condition; and
- those factors referred to in Item 3.D, “Key Information - Risk Factors”, Item 4, “Information on the Company”, and Item 5, “Operating and Financial Review and Prospects” in our 2017 Annual Report, as well as in the 2017 Annual Report generally.

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2017 Annual Report, and in our other reports filed with or furnished to the SEC, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Reference is made to Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in our 2017 Annual Report.

LEGAL PROCEEDINGS

We are subject to various litigation and other legal proceedings. For a discussion of certain of these matters that we deem to be material to our company, see Note 12-“Contingencies” in the notes to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

