

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 2017

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3, 2013, respectively, and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.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 16, 2017, Stratasys Ltd., or Stratasys, released its financial results for the three months ended March 31, 2017.

Attached hereto as Exhibit 99.1 are the unaudited, condensed consolidated financial statements of Stratasys for the three months ended March 31, 2017 (including the notes thereto) (the “Q1 2017 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, 2017, 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 2017 Financial Statements, formatted in XBRL (eXtensible Business Reporting Language), consisting of the following sub-exhibits:

Exhibit

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

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 16, 2017

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, 2017
(UNAUDITED)

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(UNAUDITED)**

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STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

(in thousands, except share data)

| | March 31, 2017 | December 31, 2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 297,246 | \$ 280,328 |
| Accounts receivable, net | 115,099 | 120,411 |
| Inventories | 116,018 | 117,521 |
| Net investment in sales-type leases | 10,844 | 11,717 |
| Prepaid expenses | 6,371 | 7,571 |
| Other current assets | 19,411 | 15,491 |
| Total current assets | 564,989 | 553,039 |
| Non-current assets | | |
| Net investment in sales-type leases - long-term | 9,655 | 12,126 |
| Property, plant and equipment, net | 206,722 | 208,415 |
| Goodwill | 385,808 | 385,629 |
| Other intangible assets, net | 169,302 | 177,458 |
| Other non-current assets | 31,626 | 29,382 |
| Total non-current assets | 803,113 | 813,010 |
| Total assets | \$ 1,368,102 | \$ 1,366,049 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 44,805 | \$ 40,933 |
| Current portion of long-term debt | 3,714 | 3,714 |
| Accrued expenses and other current liabilities | 28,582 | 32,207 |
| Accrued compensation and related benefits | 42,797 | 34,186 |
| Obligations in connection with acquisitions | 4,315 | 3,619 |
| Deferred revenues | 50,673 | 49,952 |
| Total current liabilities | 174,886 | 164,611 |
| Non-current liabilities | | |
| Long-term debt | 21,357 | 22,286 |
| Deferred tax liabilities | 4,916 | 5,952 |
| Deferred revenues - long-term | 12,942 | 12,922 |
| Other non-current liabilities | 24,293 | 22,251 |
| Total non-current liabilities | 63,508 | 63,411 |
| Total liabilities | \$ 238,394 | \$ 228,022 |
| Contingencies (see note 9) | | |
| Redeemable non-controlling interests | 1,939 | 2,029 |
| Equity | | |
| Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousands shares; 52,728 thousands shares and 52,639 thousands shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively | 142 | 142 |
| Additional paid-in capital | 2,637,561 | 2,633,129 |
| Accumulated other comprehensive loss | (12,243) | (13,479) |
| Accumulated deficit | (1,497,782) | (1,483,925) |
| Equity attributable to Stratasys Ltd. | 1,127,678 | 1,135,867 |
| Non-controlling interests | 91 | 131 |
| Total equity | 1,127,769 | 1,135,998 |
| Total liabilities and equity | \$ 1,368,102 | \$ 1,366,049 |

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, | |
|---------------------------------------------------------------------|-------------------------------------|--------------------|
| | 2017 | 2016 |
| Net sales | | |
| Products | \$ 115,087 | \$ 118,634 |
| Services | 48,075 | 49,272 |
| | <u>163,162</u> | <u>167,906</u> |
| Cost of sales | | |
| Products | 54,480 | 56,938 |
| Services | 31,802 | 29,799 |
| | <u>86,282</u> | <u>86,737</u> |
| Gross profit | <u>76,880</u> | <u>81,169</u> |
| Operating expenses | | |
| Research and development, net | 24,634 | 25,115 |
| Selling, general and administrative | 64,179 | 76,387 |
| Change in fair value of obligations in connection with acquisitions | 696 | 727 |
| | <u>89,509</u> | <u>102,229</u> |
| Operating loss | <u>(12,629)</u> | <u>(21,060)</u> |
| Financial income, net | <u>256</u> | <u>180</u> |
| Loss before income taxes | <u>(12,373)</u> | <u>(20,880)</u> |
| Income tax expenses | 1,326 | 2,291 |
| Share in loss of associated company | <u>(288)</u> | <u>-</u> |
| Net loss | <u>\$ (13,987)</u> | <u>\$ (23,171)</u> |
| Net loss attributable to non-controlling interest | <u>(130)</u> | <u>(30)</u> |
| Net loss attributable to Stratasys Ltd. | <u>\$ (13,857)</u> | <u>\$ (23,141)</u> |
| Net loss per ordinary share attributable to Stratasys Ltd. | | |
| Basic | \$ (0.26) | \$ (0.44) |
| Diluted | \$ (0.26) | \$ (0.44) |
| Weighted average ordinary shares outstanding | | |
| Basic | 52,690 | 52,098 |
| Diluted | 52,690 | 52,098 |
| Comprehensive loss | | |
| Net loss | \$ (13,987) | \$ (23,171) |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustments | 713 | 3,341 |
| Unrealized gains on derivatives designated as cash flow hedges | 523 | 931 |
| Other comprehensive income, net of tax | <u>1,236</u> | <u>4,272</u> |
| Comprehensive loss | <u>(12,751)</u> | <u>(18,899)</u> |
| Less: comprehensive loss attributable to non-controlling interests | <u>(130)</u> | <u>(30)</u> |
| Comprehensive loss attributable to Stratasys Ltd. | <u>\$ (12,621)</u> | <u>\$ (18,869)</u> |

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Cash Flows

| <i>in thousands</i> | Three Months Ended March 31, | |
|---------------------------------------------------------------------------------|-------------------------------------|-------------------|
| | 2017 | 2016 |
| Cash flows from operating activities | | |
| Net loss | \$ (13,987) | \$ (23,171) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,566 | 23,496 |
| Stock-based compensation | 3,904 | 5,623 |
| Foreign currency transaction loss | (2,744) | (4,189) |
| Deferred income taxes | (791) | (889) |
| Change in fair value of obligations in connection with acquisitions | 696 | 727 |
| Other items | 1,265 | 614 |
| Change in cash attributable to changes in operating assets and liabilities: | | |
| Accounts receivable, net | 6,145 | 15,558 |
| Inventories | 1,028 | 363 |
| Net investment in sales-type leases | 3,344 | (1,913) |
| Other current assets and prepaid expenses | (597) | 2,089 |
| Other non-current assets | 275 | 287 |
| Accounts payable | 3,845 | (951) |
| Other current liabilities | 4,043 | 11,663 |
| Deferred revenues | 333 | (79) |
| Other non-current liabilities | 2,035 | 2,356 |
| Net cash provided by operating activities | 25,360 | 31,584 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (6,315) | (7,585) |
| Investment in unconsolidated entities | (2,548) | (4,000) |
| Purchase of intangible assets | (515) | (245) |
| Proceeds from maturities of short-term bank deposits | - | 1,558 |
| Investment in short-term bank deposits | - | (67,264) |
| Other investing activities | (80) | (70) |
| Net cash used in investing activities | (9,458) | (77,606) |
| Cash flows from financing activities | | |
| Repayment of current portion of long-term debt | (929) | - |
| Proceeds from exercise of stock options | 528 | 122 |
| Net cash provided by (used in) financing activities | (401) | 122 |
| Effect of exchange rate changes on cash and cash equivalents | 1,417 | 1,484 |
| Net change in cash and cash equivalents | 16,918 | (44,416) |
| Cash and cash equivalents, beginning of period | 280,328 | 257,592 |
| Cash and cash equivalents, end of period | \$ 297,246 | \$ 213,176 |
| Supplemental disclosures of cash flow information: | | |
| Transfer of fixed assets to inventory | 129 | 503 |
| Transfer of inventory to fixed assets | 1,357 | 939 |

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

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

Note 1. Basis of Presentation and Consolidation

Stratasys Ltd. (collectively with its subsidiaries, the “Company”) is a 3D solutions company, offering additive manufacturing (“AM”) solutions for the creation of parts used in the processes of designing and manufacturing products and for the direct manufacture of end parts across a broad range of vertical markets. The Company’s solutions include products ranging from entry-level desktop 3D printers to systems for rapid prototyping (“RP”) and large production systems for direct digital manufacturing (“DDM”). The Company also develops, manufactures and sells materials for use with its systems and provides related service offerings. The Company also provides a variety of custom manufacturing solutions through its direct manufacturing printed parts service as well as 3D printing related professional services offerings.

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, 2017 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, 2016, 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 March 9, 2017.

Recently issued and adopted accounting pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) which simplifies certain aspects of the accounting for share-based payments, including, among other items, accounting for income taxes and allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, rather than to account for them based on an estimate of expected forfeitures. This ASU became effective for the Company on January 1, 2017.

Upon the adoption of this ASU, the Company recorded a cumulative-effect adjustment to its net operating losses of approximately \$5 million as of January 1, 2017 offset with an increase to its valuation allowance with respect to previously unrecognized excess tax benefits. Under the new ASU, excess tax benefits or deficiencies related to stock option exercises and restricted stock unit vesting are recognized in the statement of operations. The adoption of this ASU does not have a material impact on the Company’s results of operations as excess tax benefits generated from the vesting of share-based awards will be recognized in the consolidated statements of operations, but offset with consideration of the valuation allowance in the Company’s US operations. In addition, upon the adoption of this ASU, the Company has elected as an accounting policy to record forfeitures as they occur, using a modified retrospective transition method. The total cumulative-effect adjustment to retained earnings as of January 1, 2017 was immaterial. Prior periods have not been restated.

In January 2017, the FASB issued an ASU which eliminates the requirement to determine the implied fair value of the reporting unit’s goodwill by measuring the reporting unit’s assets and liabilities at fair value in a hypothetical analysis as if the reporting unit was acquired in a business combination, as part of the second step of goodwill impairment testing. Under the new guidance, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new ASU is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

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

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 ASU is effective for annual reporting periods (including interim periods within those annual reporting periods) beginning after December 15, 2017. Early adoption is permitted and should be adopted retrospectively. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated statements of cash flows.

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 ASU is effective for annual reporting periods (including interim periods within those annual reporting periods) beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual reporting period (as of the first interim period if an entity issues interim financial statements). The new guidance requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of the adoption of this 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. The new standard is effective for fiscal year 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. The Company is currently evaluating the impact of the adoption of the new lease accounting guidance on its consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede the current revenue recognition guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle of the new revenue recognition 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. The new revenue recognition standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. This standard may be applied retrospectively to each prior period presented (“full retrospective approach”) or retrospectively with the cumulative effect recognized as of the date of adoption (“modified retrospective approach”). The Company has developed a project plan to analyze the potential impact this guidance will have on its consolidated financial statements and related disclosures as well as its business processes, systems and controls. This includes reviewing revenue contracts across all revenue streams and evaluates potential differences that would result from applying the requirements under the new guidance. Based on the analysis conducted to date, the Company expects to adopt this standard using the modified retrospective approach and is still currently evaluating all the potential impacts of the adoption of this standard. Therefore, the Company cannot reasonably estimate quantitative information related to the impact of this standard on its consolidated financial statements at this time.

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

Note 2. Inventories

Inventories, net consisted of the following:

| | March 31, | December 31, |
|-----------------|-----------------------------|---------------------|
| | 2017 | 2016 |
| | U.S. \$ in thousands | |
| Finished goods | \$ 64,814 | \$ 62,728 |
| Work-in-process | 2,337 | 2,389 |
| Raw materials | 48,867 | 52,404 |
| | <u>\$ 116,018</u> | <u>\$ 117,521</u> |

Note 3. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company's goodwill for the three months ended March 31, 2017 were as follows:

| | U.S. \$ in millions |
|--------------------------------|----------------------------|
| Goodwill as of January 1, 2017 | \$ 385.6 |
| Translation differences | 0.2 |
| Goodwill as of March 31, 2017 | <u>\$ 385.8</u> |

Other Intangible Assets

Other intangible assets consisted of the following:

| | March 31, 2017 | | | December 31, 2016 | | |
|----------------------------------------|-----------------------------|---------------------|-------------------|--------------------------|---------------------|-------------------|
| | Carrying Amount, | | Net | Carrying Amount, | | Net |
| | Net of | Accumulated | Book | Net of | Accumulated | Book |
| | Impairment | Amortization | Value | Impairment | Amortization | Value |
| | U.S. \$ in thousands | | | | | |
| Developed technology | \$ 304,766 | \$ (204,090) | \$ 100,676 | \$ 304,766 | \$ (198,632) | \$ 106,134 |
| Patents | 19,485 | (12,733) | 6,752 | 19,009 | (12,257) | 6,752 |
| Trademarks and trade names | 27,820 | (17,204) | 10,616 | 27,819 | (16,849) | 10,970 |
| Customer relationships | 106,697 | (56,539) | 50,158 | 106,571 | (54,258) | 52,313 |
| Capitalized software development costs | 19,541 | (18,441) | 1,100 | 19,540 | (18,251) | 1,289 |
| | <u>\$ 478,309</u> | <u>\$ (309,007)</u> | <u>\$ 169,302</u> | <u>\$ 477,705</u> | <u>\$ (300,247)</u> | <u>\$ 177,458</u> |

Amortization expense relating to intangible assets for the three-month periods ended March 31, 2017 and 2016 was approximately \$8.7 million and \$14.7 million, respectively. The decrease in amortization expense was primarily due to change in the estimated useful lives of certain intangibles assets.

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

As of March 31, 2017, 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 2017 | \$ 26,030 |
| 2018 | 33,156 |
| 2019 | 32,226 |
| 2020 | 31,899 |
| 2021 | 31,340 |
| Thereafter | 14,651 |
| Total | \$ 169,302 |

Note 4. 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, 2017 and 2016:

| | Three months ended March 31, | |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------|
| | 2017 | 2016 |
| | In thousands, except per share amounts | |
| Numerator: | | |
| Net loss attributable to Stratasys Ltd.– for the computation of basic and diluted net loss per share | \$ (13,857) | \$ (23,141) |
| Denominator: | | |
| Weighted average shares – for the computation of basic and diluted net loss per share | 52,690 | 52,098 |
| Net loss per share attributable to Stratasys Ltd. | | |
| Basic | \$ (0.26) | \$ (0.44) |
| Diluted | \$ (0.26) | \$ (0.44) |

The computation of diluted net loss per share excluded share awards of 2.49 million shares and 3.56 million shares for the three months ended March 31, 2017 and 2016, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

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

Note 5. Income Taxes

The Company had a negative effective tax rate of 10.7% for the three-month period ended March 31, 2017 as compared to a negative effective tax rate of 11.0% for the three-month period ended March 31, 2016. The Company's effective tax rate was primarily impacted by different geographic mix of earnings and losses.

Note 6. 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, by fair value hierarchy, in its consolidated balance sheets:

| | March 31, 2017 | | |
|--------------------------------------------------------------------------|------------------------|-------------------|-------------------|
| | (U.S. \$ in thousands) | | |
| | Level 2 | Level 3 | Total |
| Assets: | | | |
| Foreign exchange forward contracts not designated as hedging instruments | \$ 913 | \$ - | \$ 913 |
| Foreign exchange forward contracts designated as hedging instruments | 498 | - | 498 |
| Liabilities: | | | |
| Foreign exchange forward contracts not designated as hedging instruments | (54) | - | (54) |
| Obligations in connection with acquisitions | - | (3,315) | (3,315) |
| | <u>\$ 1,357</u> | <u>\$ (3,315)</u> | <u>\$ (1,958)</u> |

| | December 31, 2016 | | |
|--------------------------------------------------------------------------|--------------------------|-------------------|-------------------|
| | (U.S. \$ in thousands) | | |
| | Level 2 | Level 3 | Total |
| Assets: | | | |
| Foreign exchange forward contracts not designated as hedging instruments | \$ 1,440 | \$ - | \$ 1,440 |
| Foreign exchange forward contracts designated as hedging instruments | 37 | - | 37 |
| Liabilities: | | | |
| Foreign exchange forward contracts not designated as hedging instruments | (48) | - | (48) |
| Foreign exchange forward contracts designated as hedging instruments | (61) | - | (61) |
| Obligations in connection with acquisitions | - | (2,619) | (2,619) |
| | <u>\$ 1,368</u> | <u>\$ (2,619)</u> | <u>\$ (1,251)</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)

Other fair value disclosures

The following table provides a reconciliation of the changes for those financial liabilities where fair value measurements are estimated utilizing Level 3 inputs, which consist of obligations in connection with acquisitions:

| | Three months ended | Year ended |
|---------------------------------------------|---------------------------|--------------------------|
| | March 31, 2017 | December 31, 2016 |
| | (U.S. \$ in thousands) | |
| Fair value at the beginning of the period | \$ 2,619 | \$ 6,991 |
| Settlements | - | (3,500) |
| Change in fair value recognized in earnings | 696 | (872) |
| Fair value at the end of the period | <u>\$ 3,315</u> | <u>\$ 2,619</u> |

The Company's obligations in connection with acquisitions as of March 31, 2017, which are estimated utilizing Level 3 inputs, are related to the deferred payments for the Company's acquisition of Solid Concepts Inc. (the "Solid Concepts transaction"). As part of the Solid Concepts transaction, which was completed in July 2014, the Company is obligated to pay additional deferred payments in three separate annual installments after the Solid Concepts transaction date ("deferred payments"). Subject to certain requirements for cash payments, the Company retains the discretion to settle the deferred payments in its shares, cash or any combination of the two. The deferred payments are also subject to certain adjustments based on the Company's share price. During the third quarter of 2016, the Company issued 152,633 ordinary shares valued at \$3.1 million and paid cash of \$0.4 million to settle the second annual installment of the deferred payments.

The deferred payments are classified as liabilities and are measured at fair value in the Company's consolidated balance sheets. The fair value of the deferred payments was determined based on the closing market price of the Company's ordinary shares on the Solid Concepts transaction date, adjusted to reflect a discount for lack of marketability for the applicable periods. The discount for lack of marketability was calculated based on the historical volatility of the Company's share price and thus represents a Level 3 measurement within the fair value hierarchy. As of March 31, 2017, the fair value of the remaining deferred payments was \$3.3 million. As of March 31, 2017, the total amount of the remaining deferred payments, which does not reflect a discount for lack of marketability, was approximately \$3.5 million, based on the Company's share price as of that date.

The fair value of the deferred payments is primarily linked to the Company's share price. An increase of 10% in the Company's share price as of March 31, 2017 would have increased the fair value of the remaining deferred payments by \$0.3 million.

In addition, changes in Level 3 inputs that were used in the fair value calculation might change the fair value of the deferred payments. A decrease of 10% in the Company's share price volatility used in the calculation for discount for lack of marketability as of March 31, 2017 would have increased the fair value of the Company's deferred payments liability by approximately \$0.1 million.

With respect to the fair-value revaluations of the deferred payments, the Company recorded loss of \$0.7 million for each of the three-month periods ended March 31, 2017 and 2016. Such fair-value revaluations are presented under change in fair value of obligations in connection with acquisitions in the Company's consolidated statements of operations and comprehensive loss.

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

Note 7. Derivative instruments and hedging activities

As 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 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 condensed 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, |
| | 2017 | 2016 | 2017 | 2016 |
| U.S. \$ in thousands | | | | |
| Assets derivatives -Foreign exchange contracts, not designated as hedging instruments | \$ 913 | \$ 1,440 | \$ 64,241 | \$ 39,982 |
| Assets derivatives -Foreign exchange contracts, designated as cash flow hedge | 498 | 37 | 9,522 | 8,348 |
| Liability derivatives -Foreign exchange contracts, not designated as hedging instruments | (54) | (48) | 8,224 | 13,273 |
| Liability derivatives -Foreign exchange contracts, designated as hedging instruments | - | (61) | - | 7,534 |
| | <u>\$ 1,357</u> | <u>\$ 1,368</u> | <u>\$ 81,987</u> | <u>\$ 69,137</u> |

As of March 31, 2017, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$72.5 million and were used to reduce foreign currency exposures of the Euro, New Israeli Shekel (the "NIS"), Japanese Yen, Korean Won and Chinese Yuan. With respect to such derivatives, losses of \$0.3 million and \$2.9 million were recognized under financial income, net for the three-month periods ended March 31, 2017 and 2016, respectively. Such losses partially offset the revaluation changes of foreign currencies the balance sheet items, which are also recognized under financial income, net.

As of March 31, 2017, the Company had in effect foreign exchange forward contracts, designated as cash flow hedge for accounting purposes, for the conversion of \$9.5 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 July 2017.

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

Note 8. 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, | |
| | 2017 | 2016 |
| | U.S \$ in thousands | |
| Cost of sales | \$ 643 | \$ 723 |
| Research and development, net | 849 | 1,359 |
| Selling, general and administrative | 2,412 | 3,541 |
| Total stock-based compensation expenses | <u>\$ 3,904</u> | <u>\$ 5,623</u> |

A summary of the Company's stock option activity for the three months ended March 31, 2017 is as follows:

| | Number of Options | Weighted Average Exercise Price |
|-------------------------------------------|--------------------------|--------------------------------------------|
| Options outstanding as of January 1, 2017 | 2,615,461 | \$ 37.21 |
| Exercised | (35,769) | 14.75 |
| Forfeited | (220,977) | 40.37 |
| Options outstanding as of March 31, 2017 | 2,358,715 | \$ 37.25 |
| Options exercisable as of March 31, 2017 | <u>1,533,280</u> | <u>\$ 38.62</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, 2017 and 2016, the Company issued 35,769 shares and 13,820 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$0.5 million and \$0.1 million for the three-month periods ended March 31, 2017 and 2016, respectively.

As of March 31, 2017, the unrecognized compensation cost of \$10.5 million related to all unvested, equity-classified stock options is expected to be recognized as an expense over a weighted-average period of 2.3 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, 2017 is as follows:

| | Number of RSUs | Weighted Average Grant Date Fair Value |
|-------------------------------------------------|----------------|-------------------------------------------|
| Unvested RSUs outstanding as of January 1, 2017 | 267,756 | \$ 81.35 |
| Forfeited | (33,120) | 70.44 |
| Vested | (49,523) | 82.12 |
| Unvested RSUs outstanding as of March 31, 2017 | <u>185,113</u> | <u>83.10</u> |

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, 2017, the unrecognized compensation cost of \$8.9 million related to all unvested, equity-classified RSUs is expected to be recognized as expense over a weighted-average period of 1.7 years.

b. Accumulated other comprehensive income (loss)

The following table presents the changes in the components of accumulated other comprehensive income (loss), net of taxes, for the three months ended March 31, 2017 and 2016:

| | 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 before reclassifications | 793 | 713 | 1,506 |
| Amounts reclassified from accumulated other comprehensive income | (270) | - | (270) |
| Other comprehensive income | 523 | 713 | 1,236 |
| Balance as of March 31, 2017 | <u>\$ 499</u> | <u>\$ (12,742)</u> | <u>\$ (12,243)</u> |

| | Three months ended March 31, 2016 | | |
|---------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------|-------------------|
| | Net unrealized gain (loss) on cash flow hedges | Foreign currency translation adjustments | Total |
| | U.S. \$ in thousands | | |
| Balance as of January 1, 2016 | \$ (107) | \$ (10,667) | \$ (10,774) |
| Other comprehensive loss before reclassifications | 863 | 3,341 | 4,204 |
| Amounts reclassified from accumulated other comprehensive income | 68 | - | 68 |
| Other comprehensive income | 931 | 3,341 | 4,272 |
| Balance as of March 31, 2016 | <u>\$ 824</u> | <u>\$ (7,326)</u> | <u>\$ (6,502)</u> |

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

Note 9. Contingencies

Claims Related to Company Equity

On March 4, 2013, five current or former minority shareholders (two of whom were former directors) of the Company filed two lawsuits against the Company in an Israeli central district court. The lawsuits demanded that the Company amend its capitalization table such that certain share issuances prior to the Stratasy-Objet merger to certain of Objet's shareholders named as defendants would be cancelled, with a consequent issuance of additional shares to the plaintiffs to account for the subsequent dilution to which they have been subject. The lawsuits also named as defendants Elchanan Jaglom, Chairman of the Company's board of directors, in one of the lawsuits, Ilan Levin, the Company's Chief Executive Officer and director, various shareholders of the Company who were also shareholders of Objet, and David Reis, a director.

The Company filed its statements of defense in May 2013 denying the plaintiffs' claims. In 2015, the court dismissed the lawsuit of one of the former directors due to lack of cause. In February 2017, the parties reached an agreement pursuant to which all claims were settled at no material cost to the Company. Notice of the settlement was provided and the suits were subsequently dismissed.

Securities Law Class Actions

On February 5, 2015, a lawsuit styled as a class action was commenced in the United States District Court for the District of Minnesota, naming the Company and certain of the Company's officers as defendants. Similar actions were filed on February 9 and 20, 2015 in the Southern District of New York and the Eastern District of New York, respectively. The lawsuits allege violations of the Securities Exchange Act of 1934 in connection with allegedly false and misleading statements concerning the Company's business and prospects. The plaintiffs seek damages and awards of reasonable costs and expenses, including attorneys' fees.

On April 15, 2015, the cases were consolidated for all purposes, and on April 24, 2015, the Court entered an order appointing lead plaintiffs and approving their selection of lead counsel for the putative class. On July 1, 2015, lead plaintiffs filed their consolidated complaint. On August 31, 2015, the defendants moved to dismiss the consolidated complaint for failure to state a claim. The Court heard the motion on December 11, 2015. On June 30, 2016, the Court granted defendants' motion to dismiss with prejudice and entered judgment in favor of defendants. On July 29, 2016, lead plaintiffs filed a notice of appeal to the United States Court of Appeals for the Eighth Circuit from the Court's judgment. On September 22, 2016, lead plaintiffs filed the opening initial brief in support of their appeal. On October 24, 2016, defendants filed their answering brief to the appeal. On November 18, 2016, lead plaintiffs filed their reply brief in support of the appeal. Oral arguments for appeal were held on March 9, 2017. A decision is pending.

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, 2016, that we filed with the SEC on March 9, 2017, or our 2016 Annual Report.

Overview of Business and Trend Information

We are a leading global provider of additive manufacturing, or AM, solutions for the creation of parts used in the processes of designing and manufacturing products and for the direct manufacture of end parts.

We provide an integrated solutions offering for different vertical markets focusing on aerospace, automotive, healthcare, tooling and manufacturing, education and consumer electronics that includes compatible products and services that are designed to meet our customers' needs in an efficient manner. Our solutions consisting of a broad range of systems, consumables and services for 3D printing and additive manufacturing and address our customers' needs for 3D printing, including printing systems, consumables, software, paid parts, strategic consulting and professional services, and 3D content.

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 15 fused deposition modeling, or FDM, cartridge-based materials, 25 Polyjet cartridge-based materials, five Smooth Curvature Printing, or SCP, inkjet-based materials, 158 non-color digital materials, and over 1,500 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 2,400 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, 2017 with the corresponding period in 2016.

Results of Operations

Comparison of Three Months Ended March 31, 2017 to Three Months Ended March 31, 2016

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

| | Three Months Ended March 31, | | | |
|------------------------------------------------------------------------|------------------------------|------------------|-------------------------|------------------|
| | 2017 | | 2016 | |
| | U.S. \$ in thousands | % of Revenues | U.S. \$ in thousands | % of Revenues |
| Revenues | \$ 163,162 | 100.0% | \$ 167,906 | 100.0% |
| Cost of sales | 86,282 | 52.9% | 86,737 | 51.7% |
| Gross profit | 76,880 | 47.1% | 81,169 | 48.3% |
| Research and development, net | 24,634 | 15.1% | 25,115 | 15.0% |
| Selling, general and administrative | 64,179 | 39.3% | 76,387 | 45.5% |
| Change in fair value of obligations in connection with acquisitions | 696 | 0.4% | 727 | 0.4% |
| Operating loss | (12,629) | -7.7% | (21,060) | -12.5% |
| Financial income, net | 256 | 0.2% | 180 | 0.1% |
| Loss before income taxes | (12,373) | -7.6% | (20,880) | -12.4% |
| Income tax expenses | 1,326 | 0.8% | 2,291 | 1.4% |
| Share in loss of associated company | (288) | -0.2% | - | 0.0% |
| Net loss attributable to non-controlling interests | (130) | -0.1% | (30) | 0.0% |
| Net loss attributable to Stratasys Ltd. | (13,857) | -8.5% | (23,141) | -13.8% |

Discussion of Results of Operations

Revenues

Our products and services revenues in the first quarter of each of 2017 and 2016, as well as the percentage change reflected thereby, were as follows:

| | Three Months Ended March 31, | | |
|----------|------------------------------|------------|----------|
| | 2017 | 2016 | % Change |
| | U.S. \$ in thousands | | |
| Products | \$ 115,087 | \$ 118,634 | -3.0% |
| Services | 48,075 | 49,272 | -2.4% |
| | \$ 163,162 | \$ 167,906 | -2.8% |

Products Revenues

Revenues derived from products (including AM systems and consumable materials) decreased by \$3.5 million, or 3.0% for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016. 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.

The decrease in systems revenues of 10.9% was driven primarily by lower sales volumes, as well as shift in our product mix, with low-end systems constituting a higher portion of our systems sold, which reflects the launch of our F123 series.

Consumables revenues for the three months ended March 31, 2017 increased by 6.8% as compared to the three months ended March 31, 2016. The increase was driven primarily by the favorable effect of our growing installed base of systems and high performance consumable materials offerings for use in new applications.

Services Revenues

Services revenues (including SDM, maintenance contracts, spare parts and other services) decreased by \$1.2 million for the three months ended March 31, 2017, or 2.4 %, as compared to the three months ended March 31, 2016. The decrease in services revenues was primarily attributable to a decrease in SDM revenues, partially offset by an increase in maintenance contracts and service parts, reflecting our growing installed base of systems.

Revenues by Region

Revenues and the percentage of revenues by region for the first quarter of each of 2017 and 2016, as well as the percentage change in revenues in each such region reflected thereby, were as follows:

| | Three Months Ended March 31, | | | | % Change |
|---------------|------------------------------|---------------|---------------------|---------------|--------------|
| | 2017 | | 2016 | | |
| | U.S.\$ in thousands | % of Revenues | U.S.\$ in thousands | % of Revenues | |
| North America | \$ 99,621 | 61.0% | \$ 98,038 | 58.4% | 1.6% |
| EMEA | 34,065 | 20.9% | 34,641 | 20.6% | -1.7% |
| Asia Pacific | 27,348 | 16.8% | 32,899 | 19.6% | -16.9% |
| Other | 2,128 | 1.3% | 2,328 | 1.4% | -8.6% |
| | <u>\$ 163,162</u> | <u>100.0%</u> | <u>\$ 167,906</u> | <u>100.0%</u> | <u>-2.8%</u> |

Revenues in the North America region increased by \$1.6 million, or 1.6%, to \$99.6 million for the three months ended March 31, 2017, compared to \$98.0 million for the three months ended March 31, 2016. The increase was primarily driven by higher products revenues, partially offset by lower services revenues due to lower SDM revenues.

Revenues in the EMEA region decreased by \$0.6 million, or 1.7%, to \$34.1 million for the three months ended March 31, 2017, compared to \$34.6 million for the three months ended March 31, 2016. The decrease was primarily due to lower systems revenues, partially offset by higher consumables and services revenues. Revenues in the EMEA region for the three months ended March 31, 2017 increased by approximately 3.0% as compared to the three months ended March 31, 2016, on a constant currency basis when using the prior period's exchange rates.

Revenues in the Asia Pacific region decreased by \$5.6 million, or 16.9%, to \$27.3 million for the three months ended March 31, 2017, compared to \$32.9 million for the three months ended March 31, 2016. The decrease was primarily due to lower systems revenues, partially offset by higher consumables and services revenues.

Gross Profit

Gross profit for our products and services for the first quarter of each of 2017 and 2016, as well as the percentage change reflected thereby, were as follows:

| | Three Months Ended March 31, | | Change in % |
|--------------------------------------|------------------------------|------------------|--------------|
| | 2017 | 2016 | |
| | U.S. \$ in thousands | | |
| Gross profit attributable to: | | | |
| Products | \$ 60,607 | \$ 61,696 | -1.8% |
| Services | 16,273 | 19,473 | -16.4% |
| | <u>\$ 76,880</u> | <u>\$ 81,169</u> | <u>-5.3%</u> |

Gross profit as a percentage of revenues for our products and services, as well as for our overall revenues, was as follows for the first quarter of each of 2017 and 2016:

| | Three Months Ended March 31, | |
|-------------------------------------------------------|-------------------------------------|-------------|
| | 2017 | 2016 |
| Gross profit as a percentage of revenues from: | | |
| Products | 52.7% | 52.0% |
| Services | 33.8% | 39.5% |
| Total gross profit | 47.1% | 48.3% |

Gross profit attributable to products revenues decreased by \$1.1 million, or 1.8%, to \$60.6 million for the three months ended March 31, 2017, compared to gross profit of \$61.7 million for the three months ended March 31, 2016. Gross profit attributable to products revenues as a percentage of products revenues increased to 52.7% for the three months ended March 31, 2017, compared to gross profit of 52.0% for the three months ended March 31, 2016.

The decrease in gross profit attributable to products revenues was primarily driven by a shift in sales mix, as described above, partially offset by higher consumables revenues and lower amortization expense of \$4.7 million, as well as lower payroll-related and other overhead expenses.

Gross profit attributable to services revenues decreased by \$3.2 million, or 16.4 %, to \$16.3 million for the three months ended March 31, 2017, compared to \$19.5 million for the three months ended March 31, 2016. Gross profit attributable to services revenues as a percentage of services revenues in the three months ended March 31, 2017 decreased to 33.8%, as compared to 39.5% for the three months ended March 31, 2017. The decrease in gross profit from services revenues primarily reflects lower SDM revenues with no correlated reduction in fixed expenses.

Operating Expenses

The amount of each type of operating expense for the first quarter of each of 2017 and 2016, 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, | | |
|---------------------------------------------------------------------|-------------------------------------|-------------------|-----------------|
| | 2017 | 2016 | % Change |
| | U.S. \$ in thousands | | |
| Research and development, net | \$ 24,634 | \$ 25,115 | -1.9% |
| Selling, general & administrative | 64,179 | 76,387 | -16.0% |
| Change in fair value of obligations in connection with acquisitions | 696 | 727 | -4.3% |
| | \$ 89,509 | \$ 102,229 | -12.4% |
| Percentage of revenues | 54.9% | 60.9% | |

Research and development expenses, net slightly decreased by \$0.5 million, or 1.9%, to \$24.6 million for the three months ended March 31, 2017, compared to \$25.1 million for the three months ended March 31, 2016. The amount of research and development expenses constituted 15.1% of our revenues for the three months ended March 31, 2017, as compared to 15.0% for the three months ended March 31, 2016.

Our research and development expenses consist primarily of employee compensation and employee-related personnel expenses, materials, laboratory supplies, costs for related software and costs for facilities. Based on our analysis of our key vertical markets, we maintain our intention to continue to invest in research and development in order to accelerate innovation and to introduce a broad range of hardware, materials and software solutions in order to sustain our leadership position in the 3D printing ecosystem. In addition, we continue with our portfolio transformation to enable prioritization and realignment of our projects that further focus our resources and designed for our customers' use cases and their specific applicative needs.

Selling, general and administrative expenses decreased by \$12.2 million, or 16.0%, to \$64.2 million for the three months ended March 31, 2017, as compared to \$76.4 million for the three months ended March 31, 2016. The amount of selling, general and administrative expenses constituted 39.3% of our revenues for the three months ended March 31, 2017, as compared to 45.5% for the three months ended March 31, 2016.

The decrease in our selling, general and administrative expenses was primarily driven by reductions in payroll related expense and facilities related expense, which reflect the effective implementation of our costs reduction initiatives, which reduced certain of our variable and fixed expenses.

Changes in fair value of obligations in connection with acquisitions resulted in losses of \$0.7 million for each of the three months ended March 31, 2017, and 2016. The changes in fair value of obligations in connection with acquisitions were due to revaluation of the deferred consideration as part of the Solid Concepts transaction. For further information, see note 6 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

Operating Loss

Operating loss and operating loss as a percentage of our total revenues, were as follows for the first quarter of each of 2017 and 2016:

| | Three Months Ended March 31, | |
|------------------------|-------------------------------------|-------------|
| | 2017 | 2016 |
| | U.S. \$ in thousands | |
| Operating loss | \$ (12,629) | \$ (21,060) |
| Percentage of revenues | -7.7% | -12.5% |

Operating loss amounted to \$12.6 million for the three months ended March 31, 2017 compared to an operating loss of \$21.1 million for the three months ended March 31, 2016. The decrease in operating loss was primarily attributable to lower operating expense for 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, amounted to \$0.3 million and \$0.2 million for the three months ended March 31, 2017 and 2016, respectively.

Income Taxes

Income taxes and income taxes as a percentage of net loss before taxes for the first quarter of each of 2017 and 2016, as well as the percentage change in each reflected thereby, were as follows:

| | Three Months Ended | | |
|------------------------------------------|---------------------------|-------------|--------------------|
| | March 31, | | |
| | 2017 | 2016 | Change in % |
| U.S. \$ in thousands | | | |
| Income tax expense | \$ 1,326 | \$ 2,291 | -42.1% |
| As a percent of loss before income taxes | -10.7% | -11.0% | -2.3% |

We had a negative effective tax rate of 10.7% for the three-month period ended March 31, 2017 compared to a negative effective tax rate of 11.0% for the three-month period ended March 31, 2016. Our effective tax rate was primarily impacted by different geographic mixes of earnings and losses.

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

Net loss attributable to Stratasy Ltd., and diluted net loss per share, for the first quarter of each of 2017 and 2016, were as follows:

| | Three Months Ended March 31, | |
|----------------------------------------|-------------------------------------|-------------|
| | 2017 | 2016 |
| | U.S. \$ in thousands | |
| Net loss attributable to Stratasy Ltd. | \$ (13,857) | \$ (23,141) |
| Percentage of revenues | -8.5% | -13.8% |
| Diluted net loss per share | \$ (0.26) | \$ (0.44) |

Net loss attributable to Stratasy Ltd. was \$13.9 million for the three months ended March 31, 2017 compared to net loss of \$23.1 million for the three months ended March 31, 2016. The decrease of the net loss attributable to Stratasy Ltd. was primarily attributable to lower operating expenses, partially offset by lower revenues.

Diluted net loss per share was \$0.26 and \$0.44 for the three months ended March 31, 2017 and 2016, respectively. The weighted average fully diluted share count was 52.7 million for the three months ended March 31, 2017, compared to 52.1 million for the three months ended March 31, 2016.

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, and (y) excluding non-cash items such as stock-based compensation expenses, acquired intangible assets amortization, impairment of goodwill and other 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 changes of non-cash valuation allowance on deferred tax assets, as well as 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, | | | | | |
|---------------------------------------------------------------------------|-----------------------------------------------------------------|------------------|-----------|-----------|------------------|-----------|
| | 2017 | Non-GAAP | 2017 | 2016 | Non-GAAP | 2016 |
| | GAAP | Adjustments | Non-GAAP | GAAP | Adjustments | Non-GAAP |
| | U.S. dollars and shares in thousands (except per share amounts) | | | | | |
| Gross profit (1) | \$ 76,880 | \$ 6,614 | \$ 83,494 | \$ 81,169 | \$ 11,278 | \$ 92,447 |
| Operating income (loss) (1,2) | (12,629) | 16,658 | 4,029 | (21,060) | 25,013 | 3,953 |
| Net income (loss) attributable to Stratasys Ltd. (1,2,3) | (13,857) | 16,265 | 2,408 | (23,141) | 23,737 | 596 |
| Net income (loss) per diluted share attributable to Stratasys Ltd. (4) | \$ (0.26) | \$ 0.31 | \$ 0.05 | \$ (0.44) | \$ 0.45 | \$ 0.01 |
| (1) Acquired intangible assets amortization expense | | 5,705 | | | 10,414 | |
| Non-cash stock-based compensation expense | | 643 | | | 723 | |
| Reorganization and other related costs | | 94 | | | - | |
| Merger and acquisition and other expense | | 172 | | | 141 | |
| | | <u>6,614</u> | | | <u>11,278</u> | |
| (2) Acquired intangible assets amortization expense | | 2,544 | | | 3,760 | |
| Non-cash stock-based compensation expense | | 3,261 | | | 4,900 | |
| Change in fair value of obligations in connection with acquisitions | | 696 | | | 727 | |
| Reorganization and other related costs | | 1,686 | | | - | |
| Merger and acquisition and other expense | | 1,857 | | | 4,348 | |
| | | <u>10,044</u> | | | <u>13,735</u> | |
| | | <u>16,658</u> | | | <u>25,013</u> | |
| (3) Corresponding tax effect | | (585) | | | (1,276) | |
| Amortization expense of associated company | | 192 | | | - | |
| | | <u>\$ 16,265</u> | | | <u>\$ 23,737</u> | |
| (4) Weighted average number of ordinary shares outstanding- Diluted | 52,690 | | 53,341 | 52,098 | | 53,143 |

Liquidity and Capital Resources

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

| | Three Months Ended March 31, | |
|---------------------------------------------------------------------|------------------------------|-------------|
| | 2017 | 2016 |
| | U.S \$ in thousands | |
| Net loss | \$ (13,987) | \$ (23,171) |
| Depreciation and amortization | 16,566 | 23,496 |
| Deferred income taxes | (791) | (889) |
| Stock-based compensation | 3,904 | 5,623 |
| Change in fair value of obligations in connection with acquisitions | 696 | 727 |
| Foreign currency transactions loss and other items | (1,479) | (3,575) |
| Change in working capital and other assets and liabilities | 20,451 | 29,373 |
| Net cash provided by operating activities | 25,360 | 31,584 |
| Net cash used in investing activities | (9,458) | (77,606) |
| Net cash provided by (used in) financing activities | (401) | 122 |
| Effect of exchange rate changes on cash | 1,417 | 1,484 |
| Net change in cash and cash equivalents | 16,918 | (44,416) |
| Cash and cash equivalents, beginning of period | 280,328 | 257,592 |
| Cash and cash equivalents, end of period | \$ 297,246 | \$ 213,176 |

Our cash and cash equivalents balance increased to \$297.2 million at March 31, 2017 from \$280.3 million at December 31, 2016. The increase in cash and cash equivalents in the three months ended March 31, 2017 was primarily due to net cash provided by operating activities in an amount of \$25.4 million, partially offset by net cash used in investing activities of \$9.5 million.

Our cash and cash equivalents balance decreased to \$213.2 million at March 31, 2016 from \$257.6 million at December 31, 2015. The decrease in cash and cash equivalents in the three months ended March 31, 2016 was primarily due to net cash used in investing activities in an amount of \$77.6 million, partially offset by net cash provided by operating activities of \$31.6 million.

Cash flows from operating activities

We generated \$25.4 million of cash from operating activities during the three months ended March 31, 2017. Our \$14.0 million net loss was adjusted due to non-cash charges such as \$16.6 million of depreciation and amortization and \$3.9 million of stock-based compensation expense. As we continue to seek operating efficiencies also through an active working capital management, \$20.5 million of changes in our working capital balances and other assets and liabilities increased our cash flow provided by operating activities. During the three months ended March 31, 2017, our working capital management activities included monitoring our cash collections and cash payments, which resulted in a \$6.1 million decrease in accounts receivable and a \$3.8 million increase in our accounts payable.

During the three months ended March 31, 2016, we generated \$31.6 million of cash from operating activities. The net loss of \$23.2 million was adjusted primarily due to \$23.5 million of depreciation and amortization and \$5.6 million of non-cash stock-based compensation expense, as well as favorably affected by \$29.4 million of changes in working capital and other assets and liabilities.

Cash flows from investing activities

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.

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. We entered the first building in January 2017. Other equipment purchases were primarily for building improvements in the United States and Israel.

We used \$77.6 million of cash in our investing activities during the three months ended March 31, 2016. Cash was primarily used for short-term bank deposits of \$67.3 million and for purchases of property and equipment in an amount of \$7.6 million.

Cash flows from financing activities

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.

Cash flows from financing activities for the three months ended March 31, 2016 included \$0.1 million of cash from the exercise of stock options.

Capital resources and capital expenditures

Our total current assets amounted to \$565.0 million as of March 31, 2017, of which \$297.2 million consisted of cash and cash equivalents. Total current liabilities amounted to \$174.9 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, credit insurance for many of our customers, 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

Under the secured loan agreement that we entered into with Bank Hapoalim Ltd. in December 2016, our company borrowed \$26 million initially and secured a credit line for an additional \$24 million. The initial proceeds that we borrowed under the loan agreement were used for purposes related to our new office facility in Israel. The initial loan will mature in December 2023 and is payable in equal consecutive quarterly principal installments of principal and accrued interest. The repayment of the initial 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 loan bears interest at the rate of LIBOR plus 3.35%. As of March 31, 2017, we had not utilized the credit line.

We believe that we were in compliance with all covenants under the loan agreement as of March 31, 2017.

As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, strategic alliances, property, plant and equipment as well as new technologies and products. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue shares or raise substantial additional funds in the future to complete future transactions.

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 2016 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, such as related to our cost reduction and 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 2016 Annual Report, as well as in the 2016 Annual Report generally.

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2016 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 2016 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 9-“Contingencies” in the notes to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

