

STRATASYS LTD.

FORM 6-K (Report of Foreign Issuer)

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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 2015

Commission File Number 001-35751

STRATASYS LTD.

(Translation of registrant's name into English)

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

**2 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 the Registrant’s registration statement on Form F-3, SEC file number 333-190965, filed by the Registrant on September 3, 2013 (as supplemented by any prospectus supplements filed on or prior to the date of this Form 6-K), and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished .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 11, 2015, Stratasys Ltd., or Stratasys, released its financial results for the three months ended March 31, 2015.

Attached hereto as Exhibit 99.1 are the unaudited, condensed consolidated financial statements of Stratasys for the three months ended March 31, 2015 (including the notes thereto) (the “Q1 2015 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, 2015, 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 2015 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

The XBRL related information in Exhibit 101 to this Form 6-K shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or 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 11, 2015

STRATASYS LTD.

By: /s/ Erez Simha

Name: Erez Simha

Title: Chief Financial Officer and
Chief Operating Officer

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2015
(UNAUDITED)

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(UNAUDITED)**

<u>Item</u>	<u>Page</u>
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Comprehensive Income (Loss)	4
Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6-17

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

<i>In thousands</i>	March 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 423,032	\$ 442,141
Short-term bank deposits	1,907	595
Accounts receivable, net	142,421	150,806
Inventories	130,958	123,385
Net investment in sales-type leases	8,682	8,170
Prepaid expenses	8,601	7,931
Deferred income taxes	26,569	25,697
Other current assets	20,084	37,903
Total current assets	<u>762,254</u>	<u>796,628</u>
Non-current assets		
Goodwill	1,171,077	1,323,502
Other intangible assets, net	534,301	597,903
Property, plant and equipment, net	164,959	157,036
Net investment in sales-type leases - long-term	16,129	14,822
Other non-current assets	10,478	9,216
Total non-current assets	<u>1,896,944</u>	<u>2,102,479</u>
Total assets	<u>\$ 2,659,198</u>	<u>\$ 2,899,107</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 47,607	\$ 37,359
Short-term debt	50,000	50,000
Accrued expenses and other current liabilities	47,069	47,760
Accrued compensation and related benefits	36,826	42,332
Obligations in connection with acquisitions	11,313	28,092
Deferred revenues	47,127	45,023
Total current liabilities	<u>239,942</u>	<u>250,566</u>
Non-current liabilities		
Obligations in connection with acquisitions - long-term	17,443	26,461
Deferred tax liabilities	43,035	55,835
Deferred revenues - long-term	5,359	5,946
Other non-current liabilities	28,918	25,091
Total non-current liabilities	<u>94,755</u>	<u>113,333</u>
Total liabilities	<u>\$ 334,697</u>	<u>\$ 363,899</u>
Contingencies, see note 10		
Redeemable non-controlling interests	<u>3,850</u>	<u>3,969</u>
Equity		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 shares; 51,016 shares and 50,923 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	139	139
Additional paid-in capital	2,579,874	2,568,149
Accumulated deficit	(250,159)	(33,871)
Accumulated other comprehensive loss	(9,675)	(3,647)
Equity attributable to Stratasys Ltd.	<u>2,320,179</u>	<u>2,530,770</u>

Non-controlling interests	472	469
Total equity	2,320,651	2,531,239
Total liabilities and equity	\$ 2,659,198	\$ 2,899,107

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

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Operations and Comprehensive Income (Loss)

<i>in thousands, except per share data</i>	Three Months Ended March 31,	
	2015	2014
Net sales		
Products	\$ 126,667	\$ 129,252
Services	46,064	21,689
	172,731	150,941
Cost of sales		
Products	98,371	61,022
Services	28,272	12,191
	126,643	73,213
Gross profit	46,088	77,728
Operating expenses		
Research and development, net	27,238	16,771
Selling, general and administrative	102,608	67,617
Goodwill impairment	150,400	-
Change in fair value of obligations in connection with acquisitions	(13,256)	(7,495)
	266,990	76,893
Operating income (loss)	(220,902)	835
Financial expense, net	(5,124)	(1,336)
Loss before income taxes	(226,026)	(501)
Income taxes	(9,622)	(4,588)
Net income (loss)	\$ (216,404)	\$ 4,087
Net loss attributable to non-controlling interest	(116)	-
Net income (loss) attributable to Stratasys Ltd.	\$ (216,288)	\$ 4,087
Net income (loss) per ordinary share attributable to Stratasys Ltd.		
Basic	\$ (4.24)	\$ 0.08
Diluted	\$ (4.24)	\$ 0.08
Weighted average ordinary shares outstanding		
Basic	50,956	49,273
Diluted	50,956	51,240
Comprehensive Income (loss)		
Net income (loss)	\$ (216,404)	\$ 4,087
Other comprehensive income (loss), net of tax:		
Losses on securities reclassified into earnings	-	167
Foreign currency translation adjustments	(6,408)	(398)
Unrealized gains (losses) on derivatives designated as cash flow hedges	380	(128)
Other comprehensive loss, net of tax	(6,028)	(359)

Comprehensive income (loss)	(222,432)	3,728
Less: comprehensive loss attributable to non-controlling interests	(116)	-
Comprehensive income (loss) attributable to Stratasys Ltd.	<u>\$ (222,316)</u>	<u>\$ 3,728</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,	
	2015	2014
Cash flows from operating activities		
Net income (loss)	\$ (216,404)	\$ 4,087
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Goodwill impairment	150,400	-
Impairment of other intangible assets	43,205	-
Depreciation and amortization	28,907	23,367
Stock-based compensation	9,760	6,736
Net foreign currency transaction loss (gain)	8,708	(139)
Deferred income taxes	(13,830)	(5,871)
Excess tax benefit from stock options	-	(238)
Change in fair value of obligations in connection with acquisitions	(13,256)	(7,495)
Other non-cash items	47	161
Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions:		
Accounts receivable, net	4,563	(6,494)
Inventories	(15,348)	(13,216)
Net investment in sales-type leases	(1,819)	(891)
Other receivables and prepaid expenses	8,916	(5,023)
Other non-current assets	(1,104)	(379)
Accounts payable	10,093	1,738
Other current liabilities	(5,595)	8,383
Deferred revenues	2,747	3,048
Other non-current liabilities	3,914	(2,914)
Net cash provided by operating activities	3,904	4,860
Cash flows from investing activities		
Purchase of property and equipment	(14,408)	(10,872)
Proceeds from maturities of short-term bank deposits	8,725	201,634
Cash paid for acquisitions, net of cash acquired	(3,801)	-
Investment in short-term bank deposits	(1,709)	(200,000)
Acquisition of intangible assets	(376)	(1,706)
Other investing activities	(99)	41
Net cash used in investing activities	(11,668)	(10,903)
Cash flows from financing activities		
Payments of obligations in connection with acquisitions	(11,620)	-
Proceeds from exercise of stock options	1,969	1,040
Acquisition of non-controlling interest	-	(2,171)
Excess tax benefit from stock options	-	238
Net cash used in financing activities	(9,651)	(893)
Effect of exchange rate changes on cash and cash equivalents	(1,694)	16
Net change in cash and cash equivalents	(19,109)	(6,920)

Cash and cash equivalents , beginning of period	<u>442,141</u>	<u>414,088</u>
Cash and cash equivalents , end of period	<u>\$ 423,032</u>	<u>\$ 407,168</u>
Supplemental disclosures of cash flow information:		
Transfer of fixed assets to inventory	2,502	60
Transfer of inventory to fixed assets	4,584	1,643

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 leading global provider of 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. 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 services as well as 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. Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations for the three months ended March 31, 2015 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, 2014, filed as part of the Company’s Annual Report on Form 20-F for such year.

Recently issued and adopted accounting pronouncements

In November 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”), which clarifies how current guidance should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The ASU clarifies that an entity should consider all relevant terms and features on the basis of relevant facts and circumstances, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of a host contract. This ASU is effective for annual reporting periods, including interim periods within those reporting periods, beginning after December 15, 2015. Earlier adoption is permitted. This ASU can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The adoption of this guidance is not expected to have a material impact on the Company’s 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, 2016, including interim periods within that reporting period, subject to an additional one-year deferral as proposed by the FASB. Earlier adoption is not permitted. This standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of the adoption of the new revenue recognition standard on its consolidated financial statements.

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

Note 2. Acquisitions

Fiscal 2015 Transaction

Transaction in China

On February 10, 2015, the Company acquired certain assets and assumed certain liabilities of Intelligent CAD/CAM Technology Ltd., a Hong Kong company. This acquisition is expected to enable the Company to expand its operations in the Chinese market.

Financial information giving effect to this business combination has not been provided as the acquisition is not material.

Fiscal 2014 Transaction

Solid Concepts transaction

On July 14, 2014 (the “Solid Concepts transaction date”), the Company completed the acquisition of 100% of the outstanding shares of Solid Concepts Inc. (“Solid Concepts”), an independent additive manufacturing service bureau for a total consideration of approximately \$185.4 million. This transaction has enabled the Company to expand its existing digital manufacturing printed parts services and to create a leading strategic platform to meet a broad range of customers’ additive manufacturing needs and provide opportunities to leverage manufacturing services capabilities.

In exchange for 100% of the outstanding shares of Solid Concepts, the Company issued 978,601 ordinary shares, paid cash upon closing and was obligated to pay an additional holdback cash payment deferred for six months, which was paid in January 2015. In addition, 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.

The Solid Concepts transaction is reflected in accordance with ASC Topic 805, “Business Combinations”, using the acquisition method of accounting with the Company as the acquirer. The following table summarizes the fair value of the consideration transferred to Solid Concepts stockholders for the Solid Concepts transaction:

	<u>U.S. \$ in thousands</u>
Issuance of ordinary shares	\$ 97,869
Cash paid upon closing	40,130
Holdback amount	3,839
Deferred payments	43,576
Total fair value of consideration transferred	<u>\$ 185,414</u>

The fair value of the ordinary shares issued was determined based on the closing market price of the Company’s ordinary shares on the Solid Concepts transaction date.

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.

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

The deferred payments are recognized as liabilities at fair value in the Company's consolidated balance sheets and are classified under short-term and long-term obligations in connection with acquisitions. The fair value of the deferred payments as of March 31, 2015 was \$22.4 million. The total amount of the deferred payments, which does not reflect a discount for lack of marketability, was approximately \$25.8 million, based on the Company's share price as of March 31, 2015.

The fair value of the deferred payments is primarily linked to the Company's share price. An increase of 10% of the Company's share price as of March 31, 2015 would have increased the fair value of the deferred payments by \$2.2 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, 2015 would increase the fair value of the Company's deferred payments liability by approximately \$0.7 million.

Under the terms of the definitive agreement, certain of Solid Concepts' employees may also qualify for retention-related payments that are linked to the Company's share price. The retention-related payments will be paid in three separate annual installments after the Solid Concepts transaction date ("deferred retention payments").

Expense due to the deferred retention payments of \$0.1 million was recorded during the three months ended March 31, 2015. Based on the Company's share price as of March 31, 2015, the total deferred retention payments will amount to approximately \$30.3 million.

Subject to certain requirements for cash payments, the Company retains the discretion to settle any of the amounts payable under the definitive agreement in its shares, cash or any combination of the two. These amounts are also subject to certain adjustments based on the Company's share price.

Note 3. Inventories

Inventories consisted of the following:

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	U.S. \$ in thousands	
Finished goods	\$ 72,235	\$ 66,779
Work-in-process	7,927	7,815
Raw materials	50,796	48,791
	<u>\$ 130,958</u>	<u>\$ 123,385</u>

Note 4. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company's goodwill for the three months ended March 31, 2015, were as follows:

	U.S. \$ in millions
Goodwill as of December 31, 2014	\$ 1,323.5
Goodwill impairment charges	(150.4)
Goodwill acquired	1.0
Translation differences	(3.0)
Goodwill as of March 31, 2015	<u>\$ 1,171.1</u>

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

The Company determined that certain indicators of potential impairment existed that required an interim goodwill impairment analysis for all of its reporting units as of March 31, 2015. These indicators included a decrease in the Company's share price and lower than expected revenue growth for the first quarter of 2015 , partially due to negative effect of exchange rate differences. With the exception of the MakerBot reporting unit, the Company performed a qualitative assessment for goodwill impairment for each of its reporting units and determined that it was more likely than not that the fair value of each of its reporting units exceeds its carrying value .

For the MakerBot reporting unit, for which the Company recorded an impairment charge of \$102.5 million in 2014, the Company determined that certain indicators of potential impairment existed that required an additional interim quantitative assessment for goodwill impairment. These indicators included a decrease in MakerBot product and service revenues in the first quarter of 2015 as compared to the fourth quarter of 2014 and below the Company's previous projections , and lower forecasted profitability due to current trends in the 3D desktop market.

The Company updated its cash flow projections and related assumptions based on the indicators mentioned above and performed the two-step goodwill impairment test. The updated MakerBot reporting unit's impairment analysis performed as part of step two of the goodwill impairment test determined that the carrying amount of goodwill assigned to the MakerBot reporting unit exceeds its fair value. As a result, the Company recorded non-tax deductible impairment charge of \$ 150.4 million, in order to reduce the carrying amount of goodwill to its estimated fair value.

When evaluating the fair value of its MakerBot reporting unit , the Company used a discounted cash flow model, which utilized level 3 measures that represent unobservable inputs into the Company's valuation method. Key assumptions used to determine the estimated fair value include: (a) expected future cash flows (including revenue growth rates , sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate of 3.5% determined based on the growth prospects of the reporting unit; and (c) a discount rate of 13.5% based on the after-tax weighted average cost of capital which reflects the associated risks of the MakerBot reporting unit's future cash flows .

Keeping all other assumptions constant, a decrease in the growth rate of 1% or an increase of 1% to the discount rate would reduce the fair value of MakerBot reporting unit by approximately an additional \$ 18.9 million and \$ 29.6 million, respectively.

As of March 31, 2015 , the remaining goodwill carrying value of the MakerBot reporting unit was \$125.1 million.

The Company will continue to monitor its reporting units to determine whether events and changes in circumstances such as significant adverse changes in business climate or operating results, changes in management's business strategy, changes of management's cash flows projections or further significant declines of the Company's share price, warrant further interim impairment testing.

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

Other Intangible Assets

Other intangible assets consisted of the following:

	March 31, 2015				December 31, 2014			
	Gross		Accumulated	Net	Gross		Accumulated	Net
	Carrying	Accumulated	Impairment	Book	Carrying	Accumulated	Impairment	Book
	Amount	Amortization	Loss	Value	Amount	Amortization	Loss	Value
U.S. \$ in thousands								
Developed technology	\$ 512,502	\$ (124,625)	\$ (41,418)	\$ 346,459	\$ 512,402	\$ (109,816)	\$ (11,636)	\$ 390,950
Patents	15,446	(8,554)	-	6,892	15,209	(8,136)	-	7,073
Trademarks and trade names	60,066	(10,958)	-	49,108	60,046	(9,519)	-	50,527
Customer relationships	149,194	(30,585)	(13,423)	105,186	148,338	(26,219)	-	122,119
Non-compete agreements	10,843	(4,638)	-	6,205	10,843	(3,952)	-	6,891
Capitalized software development costs	17,482	(14,710)	-	2,772	17,290	(14,423)	-	2,867
In process research and development	20,679	-	(3,000)	17,679	20,476	-	(3,000)	17,476
	<u>\$ 786,212</u>	<u>\$ (194,070)</u>	<u>\$ (57,841)</u>	<u>\$ 534,301</u>	<u>\$ 784,604</u>	<u>\$ (172,065)</u>	<u>\$ (14,636)</u>	<u>\$ 597,903</u>

Prior to conducting the interim quantitative assessment for goodwill impairment of the MakerBot reporting unit as of March 31, 2015, the Company evaluated the recoverability of the MakerBot reporting unit long-lived assets, including its purchased intangible assets due to a decrease of MakerBot product and service revenues in the first quarter of 2015 as compared to the fourth quarter of 2014 as well as lower forecasted profitability due to current trends in the 3D desktop market. The Company assessed the recoverability of the MakerBot reporting unit intangible assets based on their projected undiscounted future cash flows expected to result from each intangible asset. Based on the results of the recoverability assessment, the Company determined that the carrying values of certain of the MakerBot reporting unit intangible assets exceeds their undiscounted cash flows projections and therefore were not recoverable and considered to be impaired. For those unrecoverable intangible assets, the Company recorded impairment charges of \$43.2 million for the three months ended March 31, 2015, in order to reduce the carrying amount of those intangible assets to their estimated fair value. Impairment charges of \$29.8 million related to the MakerBot reporting unit developed technology intangible assets were classified as costs of sales. Impairment charges of \$13.4 million related to the MakerBot reporting unit customer relationships intangible assets were classified as selling, general and administrative expenses.

The impairment charges were measured as the difference between the carrying amounts of those intangible assets and their fair values. The fair values of those intangible assets were determined under the income approach, which is based on a discounted cash flow model, which utilized level 3 measures that represent updated revenue projections and profit margins over the expected remaining useful life of the asset, as well as associated relevant risk factor added to the discount rate.

Amortization expense relating to intangible assets for the three-month periods ended March 31, 2015 and 2014 was approximately \$22.0 million and \$19.0 million, respectively.

As of March 31, 2015, estimated amortization expense relating to intangible assets currently subject to amortization for each of the following periods were as follows:

	U.S. \$ in thousands
Remaining 9 months of 2015	\$ 58,138
2016	75,852
2017	74,049
2018	71,096
2019	69,966
Thereafter	167,521
Total	<u>\$ 516,622</u>

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

Note 5. Income (Loss) Per Share

The Company complies with ASC 260, *Earnings Per Share*, which requires dual presentation of basic and diluted income (loss) per ordinary share attributable to Stratasys Ltd. for all periods presented. Basic net income (loss) per share is computed by dividing net income (loss) attributable to Stratasys Ltd. by the weighted average number of shares outstanding for the reporting periods. Diluted net income per share is computed using the weighted-average number of ordinary shares and the potential dilutive ordinary shares outstanding during the period. Diluted shares outstanding include the dilutive effect of in-the-money options and restricted stock units (“RSUs”) using the treasury stock method, as well as shares held back from issuance in connection with the MakerBot transaction.

The following table presents the numerator and denominator of the basic and diluted income (loss) per share computations for the three months ended March 31, 2015 and 2014:

	<u>Three months ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
<u>In thousands, except per share amounts</u>		
Numerator:		
Net income (loss) attributable to Stratasys Ltd.– for the computation		
of basic and diluted net income (loss) per share	\$ (216,288)	\$ 4,087
Denominator:		
Weighted average shares – denominator for basic net income (loss) per share		
	50,956	49,273
Add: Effect of dilutive securities		
Additional shares from the assumed exercise of employee stock		
options and unvested RSUs	-	1,312
Held back issuable shares in connection with MakerBot transaction	-	655
Denominator for diluted income (loss) per share	<u>50,956</u>	<u>51,240</u>
Net income (loss) per share attributable to Stratasys Ltd.		
Basic	<u>\$ (4.24)</u>	<u>\$ 0.08</u>
Diluted	<u>\$ (4.24)</u>	<u>\$ 0.08</u>

The computation of diluted net income (loss) per share excluded stock options, RSUs and shares held back in connection with the MakerBot transaction in amounts of 2.95 million and 0.16 million shares for the three months ended March 31, 2015 and 2014, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net income (loss) per share.

Note 6. Income Taxes

The Company’s effective tax rate for the three months ended March 31, 2015 and 2014 was 4.3% and 915.8%, respectively. The Company’s effective tax rate has varied significantly due to changes in the mix of taxable income and tax loss between the U.S. and Israel.

The Company’s effective tax rate for the three months ended March 31, 2015 was impacted by goodwill impairment of \$150.4 million associated with the Makerbot acquisition which is non-tax deductible, and therefore had a significant impact on the effective tax rate for the three months ended March 31, 2015.

In addition, the impairment of MakerBot intangible assets as described in note 4 resulted in a reversal of related deferred tax liabilities amounting to \$17.2 million. As a result, the Company recorded a valuation allowance in a corresponding amount of \$17.2 million against deferred tax assets in respect of net operating losses as it is more likely than not that those deferred tax assets will not be realized in future periods. The Company will continue to monitor whether the realization of its remaining deferred tax assets is more likely than not.

Gain of \$7.5 million attributable to the change in fair value of the Company’s earn-out obligations in the three-months period ended March 31, 2014, was non-taxable, and therefore had a significant impact on the effective tax rate in that period.

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

Note 7. 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.

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 the condensed consolidated balance sheets:

	March 31, 2015		
	Level 2	Level 3	Total
U.S. \$ in thousands			
Assets:			
Foreign exchange forward contracts not designated as hedging instruments	\$ 4,007	\$ -	\$ 4,007
Liabilities:			
Foreign exchange forward contracts not designated as hedging instruments	(2,811)	-	(2,811)
Foreign exchange forward contracts designated as hedging instruments	(863)	-	(863)
Obligations in connection with acquisitions	-	(22,400)	(22,400)
	<u>\$ 333</u>	<u>\$ (22,400)</u>	<u>\$ (22,067)</u>

	December 31, 2014		
	Level 2	Level 3	Total
U.S. \$ in thousands			
Assets:			
Foreign exchange forward contracts not designated as hedging instruments	\$ 3,753	\$ -	\$ 3,753
Liabilities:			
Foreign exchange forward contracts not designated as hedging instruments	(2,901)	-	(2,901)
Foreign exchange forward contracts designated as hedging instruments	(1,243)	-	(1,243)
Obligations in connection with acquisitions	-	(35,656)	(35,656)
	<u>\$ (391)</u>	<u>\$ (35,656)</u>	<u>\$ (36,047)</u>

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

The following table is 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, 2015	December 31, 2014
U.S. \$ in thousands		
Fair value at the beginning of the period	\$ 35,656	\$ 29,025
Cash settlements	-	(10,795)
Additions	-	43,576
Change in fair value recognized in earnings	(13,256)	(26,150)
Fair value at the end of the period	<u>\$ 22,400</u>	<u>\$ 35,656</u>

The Company's obligations in connection with acquisitions as of March 31, 2015 are related to the deferred payments in connection with the Solid Concepts transaction. Change in fair value recognized in earnings during 2015 includes an unrealized gain of approximately \$13.3 million due to revaluation of the deferred payments in connection with the Solid Concepts transaction. For further information refer to note 2.

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, short-term bank deposits, current and non-current receivables, short-term debt, accounts payable and accruals. The fair value of these financial instruments approximates their carrying values.

Note 8. Derivative instruments and hedging activities:

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

		Fair Value		Notional Amount	
		March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 4,007	\$ 3,753	\$ 46,050	\$ 45,000
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(2,811)	(2,901)	12,686	18,424
Liability derivatives -Foreign exchange contracts, designated as cash flow hedge	Accrued expenses and other current liabilities	(863)	(1,243)	38,794	38,426
		<u>\$ 333</u>	<u>\$ (391)</u>	<u>\$ 97,530</u>	<u>\$ 101,850</u>

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

As of March 31, 2015, the Company had foreign exchange forward contracts, not designated as hedging instruments, in effect for the conversion of \$46.1 million into €9.4 million and \$12.7 million into NIS 46.1 million. These derivatives are primarily used to reduce the impact of foreign currency fluctuations on certain balance sheet exposures. With respect to such derivatives, gain of \$4.2 million and a loss of \$1.0 million were recognized under financial expense, net for the three-month periods ended March 31, 2015 and 2014, respectively. Such gains partially offset the revaluation losses of the balance sheet items, which are also recorded under financial expense, net.

As of March 31, 2015, the Company had foreign exchange forward contracts in effect for the conversion of \$38.8 million designated as a cash flow hedge for accounting purposes. 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 New Israeli Shekels. The changes in fair value of those contracts of \$0.4 million and \$0.1 million for the three-month periods ended March 31, 2015 and 2014, respectively, are included in the Company's accumulated other comprehensive income. These contracts mature through December 31, 2015.

Note 9. Equity**a. Stock-based compensation plans**

Stock-based compensation expense for equity classified stock options and restricted stock units ("RSUs") were allocated as follows:

	Three Months Ended	
	March 31,	
	2015	2014
	U.S \$ in thousands	
Cost of sales	\$ 1,833	\$ 912
Research and development, net	1,868	938
Selling, general and administrative	6,059	4,886
Total stock-based compensation expenses	<u>\$ 9,760</u>	<u>\$ 6,736</u>

A summary of the Company's stock option activity for the three months ended March 31, 2015 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2015	1,719,241	\$ 43.89
Granted	-	-
Exercised	(91,528)	22.13
Forfeited	(27,496)	50.46
Options outstanding as of March 31, 2015	<u>1,600,217</u>	<u>\$ 44.53</u>
Options exercisable as of March 31, 2015	<u>860,358</u>	<u>\$ 23.77</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 continuing service to the Company.

The fair value of stock options is determined using the Black-Scholes model. No options were granted during the three-month period ended March 31, 2015. The weighted-average grant date fair value of options that were granted during the three-month period ended March 31, 2014 was \$42.85 per option.

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

During the three-month periods ended March 31, 2015 and 2014, the Company issued 91,528 and 116,609 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$2.0 million and \$1.0 million for the three-month periods ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, the unrecognized compensation cost related to all unvested equity classified stock options of \$31.3 million is expected to be recognized as an expense over a weighted-average period of 1.3 years.

A summary of the Company's RSUs activity for the three months ended March 31, 2015 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
RSUs outstanding as of January 1, 2015	667,498	\$ 94.19
Granted	52,460	76.38
Forfeited	(20,461)	94.23
RSUs outstanding as of March 31, 2015	<u>699,497</u>	<u>\$ 92.85</u>

During the three-month periods ended March 31, 2015 and 2014, the Company granted RSUs for 52,460 and 6,247 ordinary shares of the Company, respectively. 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, 2015, the unrecognized compensation cost related to all unvested equity classified RSUs of \$52.5 million is expected to be recognized as expense on a straight-line basis over a weighted-average period of 3.3 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, 2015 and 2014:

	Three months ended March 31, 2015		
	Net unrealized gain (loss) on cash flow hedges	Foreign currency translation adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2015	\$ (1,243)	\$ (2,404)	\$ (3,647)
Other comprehensive income before reclassifications	(728)	(6,408)	(7,136)
Amounts reclassified from accumulated other comprehensive income	1,108	-	1,108
Other comprehensive income (loss)	380	(6,408)	(6,028)
Balance as of March 31, 2015	<u>\$ (863)</u>	<u>\$ (8,812)</u>	<u>\$ (9,675)</u>

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

Three months ended March 31, 2014

	<u>Net unrealized gain (loss) on cash flow hedges</u>	<u>Foreign currency translation adjustments</u>	<u>Other</u>	<u>Total</u>
	U.S. \$ in thousands			
Balance as of January 1, 2014	\$ 153	\$ 1,922	\$ (167)	\$ 1,908
Other comprehensive income before reclassifications	(7)	(398)	-	(405)
Amounts reclassified from accumulated other comprehensive income	(121)	-	167	46
Other comprehensive income (loss)	(128)	(398)	167	(359)
Balance as of March 31, 2014	<u>\$ 25</u>	<u>\$ 1,524</u>	<u>\$ -</u>	<u>\$ 1,549</u>

Realized gains and losses on cash flow hedges were reclassified to research and development, net and selling and general and administrative expenses. Other reclassifications from accumulated other comprehensive income (loss) were reclassified to financial expense, net.

Note 10. Contingencies*Claims and Proceedings*

In December 2008, an employee, whose employment with the Company was subsequently terminated, filed a claim against the Company demanding that, based on an alleged undertaking the Company had made, the Company issue to him an option that would allow him to maintain an equity interest of 1.45% in the Company, as well as reimburse salary reductions he had suffered in an aggregate sum of NIS 552,000 (\$139,000). In July 2009, the Company filed its statement of defense, rejecting the claims raised by the former employee. Together with the former employee, the Company initiated mediation of the dispute, but did not reach a settlement. The former employee later amended his initial pleading to seek an additional NIS 441,000 (\$111,000) on account of alleged wrongful termination by the Company. The claim was dismissed in November 2013 by the Israeli labor court, also awarding the Company legal expenses of NIS 55,000. The plaintiff appealed the decisions, and the appeal was dismissed on March 10, 2015.

On March 4, 2013, four 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 demand that the Company amend its capitalization table such that certain share issuances prior to the Stratasys-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 name as defendants Elchanan Jaglom, Chairman of the Company's board of directors, David Reis, Chief Executive Officer, various shareholders of the Company who were also shareholders of Objet, and, in one of the lawsuits, Ilan Levin, a director.

The lawsuits allege in particular that a series of investments in Objet during 2002 and 2007 was effected at a price per share that was below fair market value, thereby illegally diluting those shareholders that did not participate in the investments. The plaintiffs also allege that a portion of the amount invested in those transactions was actually invested by an investor who was already a shareholder of Objet and allegedly acting in concert with Mr. Jaglom, and that the interest of these two shareholders in these transactions was not properly disclosed to the minority shareholders at the time. The lawsuits furthermore claim that the Company effectively engaged in backdating the issuance of certain shares, in that shares that Objet reported as having been issued in 2006 and 2007 were actually issued at a subsequent date—as late as 2009. The Company filed its statements of defense in May 2013 denying the plaintiffs' claims. Also, the Company filed a motion to dismiss the claims on grounds of statute of limitations, laches and lack of cause. On April 8, 2014, the court held a hearing on the motion and the parties submitted summation briefs. The court's decision is pending.

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

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, and on March 25, 2015 in the Southern District of New York, the Eastern District of New York, and the District of Minnesota, 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 3 and 6, 2015, the courts in the Southern and Eastern Districts of New York, respectively, entered orders transferring their cases to the District of Minnesota. 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. The Company intends to mount vigorous defenses to these lawsuits.

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

Note 11. Subsequent Events

In April 2015, the Company purchased the rights in land and a new building under construction in Rehovot, Israel (the "new Rehovot Property") for a total consideration of approximately \$38 million. The new Rehovot Property includes 11,700 square meters (approximately 126,000 square feet) of new building space under construction and additional building rights of 36,000 square meters (approximately 387,500 square feet). The new Rehovot Property will house the Company's Israeli headquarters, research and development facilities and certain manufacturing activities.

In April 2015, the Company borrowed \$125 million under its five-year revolving credit facility to support the funding of its expected growing business. Including amounts previously borrowed, the Company has \$175 million principal amount of debt outstanding under the revolving credit facility, which provides a principal amount for revolving credit loans of up to \$250 million.

In April 2015, the Company initiated a reorganization plan within MakerBot that is intended to focus efforts at MakerBot on improving and iterating products, growing the 3D ecosystem, and expand its presence in the professional, education and consumer markets ("MakerBot Reorganization"). This reorganization initiative includes a reduction in the number of MakerBot employees and closing of MakerBot's three retail stores. Through the MakerBot Reorganization, the Company expects to achieve costs savings, economies of scale and to better position its market penetration. Costs related to the MakerBot Reorganization will be incurred commencing the second quarter of 2015.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included 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, 2014, or our 2014 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. Our solutions include products 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 believe that the range of 3D printing consumable materials that we offer, consisting of 38 Polyjet and FDM cartridge-based materials, five SCP inkjet-based materials and 138 non-color digital materials, and over 1,000 color variations, is the widest in the industry. Our service offerings include Stratasys Direct Manufacturing printed parts services as well as our professional services. We provide products and services to our global customer base through our offices in North America and internationally, including: Shanghai, China; Frankfurt, Germany; Genoa, Italy; São Paulo, Brazil; Bangalore, India; Tokyo, Japan; and Hong Kong, as well as through our worldwide network of more than 280 agents and resellers. Additionally, through the MakerBot transaction, we have added an online sales channel. We have more than 2,800 employees and hold more than 800 granted or pending patents worldwide.

During April 2015, we updated our previously announced investment plan. While we remain confident in our long-term market prospects, in light of the current growth environment, we re-examined our 2015 operating plans and took immediate action to adjust near-term capital expenditures for the remainder of 2015. As a part of the updated investment plan, we reduced our capital expenditures plans for 2015 to a level of \$80 to \$110 million, as opposed to the previously announced plan for capital expenditures in a level of \$160 to \$200 million. Our commitment to the multi-year investment plan that focuses on enhancing vertical industry solutions, expands customer support services, accelerates product development, and builds an enhanced sales and marketing infrastructure will remain unchanged.

Our ability to implement our strategy is subject to numerous uncertainties, many of which are described under the section captioned “Forward-looking Statements and Factors That May Affect Future Results of Operations” in this Exhibit 99.2 to the Form 6-K as well as, under Item 3.D, “Risk Factors” and Item 5, “Operating and Financial Review and Prospects” in our 2014 Annual Report. We cannot ensure that our efforts will be successful.

Recent developments

Fiscal 2015

MakerBot Reorganization

In April 2015, we initiated a reorganization plan within MakerBot that is intended to focus efforts at MakerBot on improving and iterating products, growing the 3D ecosystem, and expanding our presence in the professional, education and consumer markets (“MakerBot Reorganization”). This reorganization initiative includes a reduction in the number of MakerBot employees and closing of MakerBot’s three retail stores. Through the MakerBot Reorganization, we expect to achieve costs savings, economies of scale and to better position MakerBot’s market penetration. Costs related to the MakerBot Reorganization will be incurred commencing the second quarter of 2015.

Transaction in China

On February 10, 2015, we acquired certain assets and assumed certain liabilities of Intelligent CAD/CAM Technology Ltd., a Hong Kong company. This acquisition is expected to enable us to expand our operations in the Chinese market.

Fiscal 2014

Solid Concepts

On July 14, 2014, or the Solid Concepts transaction date, we completed the acquisition of 100% of the outstanding shares of Solid Concepts Inc., or Solid Concepts, an independent additive manufacturing service bureau, for a total consideration of approximately \$185.4 million.

In exchange for 100% of the outstanding shares of Solid Concepts, we issued 978,601 ordinary shares, paid cash upon closing in the amount of \$40.1 million and were obligated to make an additional holdback cash payment in the amount of \$3.8 million that was deferred for six months and was paid in January 2015. In addition, we are obligated to pay deferred payments in three separate annual installments after the Solid Concepts transaction date. The deferred payments were evaluated and recorded at a fair value of \$43.6 million as of the Solid Concepts transaction date.

Under the terms of the definitive agreement, certain of Solid Concepts' employees may also qualify for retention-related and other payments of \$77.0 million, based on our share price as of the Solid Concepts transaction date, of which \$19.6 million was paid in cash upon closing and expensed as incurred. The remaining retention payments will be paid in three separate annual installments. Based on our share price as of March 31, 2015, the remaining retention payments will amount to approximately \$30.3 million.

Subject to certain requirements for cash payments, we retain the discretion to settle any of the amounts payable to Solid Concepts shareholders and employees in our shares, cash or any combination of the two. These amounts are also subject to certain adjustments based on our share price.

We believe that the acquisitions of Solid Concepts and Harvest, combined with our RedEye Service, had created a leading strategic platform to meet a broad range of customers' additive manufacturing needs and provide opportunities to leverage our direct manufacturing services capabilities. These acquisitions had also enabled us to enhance our expertise in parts production, as well as materials and systems knowhow. We believe that the integration with our existing RedEye Service enables us to provide our customers with full service offerings that provide a variety of technologies and custom manufacturing solutions, and supports our expansion into end-use-parts production and vertical market applications.

Following the acquisitions of Solid Concepts and Harvest, we formed Stratasys Direct Manufacturing, or SDM, a paid-parts service from our three AM service companies – Solid Concepts, Harvest, and RedEye. SDM is a provider of 3D printing and custom AM services, offering AM capabilities encompassing a wide range of technologies allowing for plastic and metal parts for rapid prototyping and production processes.

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, ("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, 2015 with the corresponding period in 2014.

Highlights

Significant highlights for the first quarter of 2015 included:

- Net sales in the three months ended March 31, 2015 were \$172.7 million as compared to net sales of \$150.9 million in the three months ended March 31, 2014, representing an increase of 14.4%. Net sales increased by approximately 20% on a constant currency basis when compared to the same period last year .
- Continued the integration process of SDM to create a leading strategic platform for our direct manufacturing service following the acquisitions of Solid Concepts and Harvest Technologies.
- Recorded a non-cash, non-tax-deductible goodwill impairment charge of \$ 150.4 million and a non-cash charge for other intangible assets impairment of \$43.2 million.
- Net loss attributable to Stratasys Ltd. of \$ 216.3 million, or \$4.24 per diluted share, as compared to net income of \$4.1 million or \$0.08 per diluted share, for the three months ended March 31, 2014.
- Cash flows provided by operating activities amounted to \$3.9 million in the three months ended March 31, 2015 as compared to \$4.9 million in three months ended March 31, 2014.
- Announced an updated near-term plan for capital expenditures of \$80 to \$110 million for 2015, while remaining committed to our multi-year investment plan.

Results of Operations

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

	Three Months Ended March 31,			
	2015		2014	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 172,731	100.0%	\$ 150,941	100.0%
Cost of sales	126,643	73.3%	73,213	48.5%
Gross profit	46,088	26.7%	77,728	51.5%
Research and development, net	27,238	15.8%	16,771	11.1%
Selling, general and administrative	102,608	59.4%	67,617	44.8%
Goodwill impairment	150,400	87.1%	-	0.0%
Change in fair value of obligations in connection with acquisitions	(13,256)	-7.7%	(7,495)	-5.0%
Operating income (loss)	(220,902)	-127.9%	835	0.6%
Financial expense, net	(5,124)	-3.0%	(1,336)	-0.9%
Loss before income taxes	(226,026)	-130.9%	(501)	-0.3%
Income taxes	(9,622)	-5.6%	(4,588)	-3.0%
Net income (loss) attributable to Stratasys Ltd.	(216,288)	-125.2%	4,087	2.7%

Discussion of Results of Operations

Net Sales

Net sales of our products and services, as well as the percentage change, were as follows:

	Three Months Ended March 31,		
	2015	2014	% Change
	U.S. \$ in thousands		
Products	\$ 126,667	\$ 129,252	-2.0%
Services	46,064	21,689	112.4%
	<u>\$ 172,731</u>	<u>\$ 150,941</u>	14.4%

Our results for the three months ended March 31, 2015 were lower than expected across most geographies and industries compared to growth levels we have experienced historically, excluding revenues for both consumables and customer support, which grew as expected. We believe that the overall shortfall was due primarily to the following:

- A decline in relevant capital spending within certain regions and industries, particularly in North America;
- Negative impact from foreign currencies translation, which unfavorably impacted net sales by approximately \$7.8 million, when net sales are translated on a constant currency basis;
- Increased M&A activity among a few of our largest channel partners in North America, which contributed to a slower than expected sales ramp up amongst those partners;
- The introduction of eight additional products over the course of the second half of 2014 to complete the Connex Triple Jetting Technology portfolio resulted in slower than expected adoption of the high-end Connex platforms within the channel.
- Following accelerated growth in Asia Pacific and Japan over the past several years, a slower than expected channel ramp-up in certain parts of the region.

Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) decreased by \$2.6 million for the three months ended March 31, 2015, or 2.0%, as compared to the three months ended March 31, 2014.

The decrease in products sales of 2.0% was driven by a decrease in MakerBot revenues, slow adoption of high-end systems and the negative impact from foreign currency exchange fluctuations, which were partially offset by strong business performance for consumables offerings.

The number of systems shipped in the three months ended March 31, 2015 decreased to 7,536 units as compared to 8,802 units shipped in the three months ended March 31, 2014. The decrease in the number of systems shipped was primarily due decrease in MakerBot unit sales.

Consumables net sales for the three months ended March 31, 2015 increased by 17.6% as compared to the three months ended March 31, 2014. The increase was driven by acceleration in customer usage and our growing installed base of systems. In particular, the strong sales of our Production series and high-end Design series systems in prior periods contributed to strong consumables sales growth given their relatively higher consumable utilization rates. The increase in consumables net sales was also driven by new high performance consumable materials for the use in various applications, which were launched subsequent to March 31, 2014.

We believe that our growing installed base is a positive indicator of consumables revenues growth in future periods.

Services Revenues

Services revenues (including SDM, maintenance and other services) increased by \$24.4 million for the three months ended March 31, 2015, or 112.4%, as compared to the three months ended March 31, 2014. The increase in services revenues was primarily attributable to the inclusion of SDM revenues, which relates to acquisitions completed after March 31, 2014. Service revenues also increased organically from maintenance contracts and service parts, reflecting our growing installed base of systems.

Revenues by Region

Net sales and the percentage of net sales by region, as well as the percentage change, were as follows:

	Three Months Ended March 31,				
	2015		2014		% Change
	U.S. \$ in	% of	U.S. \$ in	% of	
	thousands	Net sales	thousands	Net sales	
North America	\$ 97,549	56.5%	\$ 74,663	49.5%	30.7%
EMEA	37,627	21.8%	41,215	27.3%	-8.7%
Asia Pacific	35,305	20.4%	33,420	22.1%	5.6%
Other	2,250	1.3%	1,643	1.1%	36.9%
	<u>\$ 172,731</u>	<u>100.0%</u>	<u>\$ 150,941</u>	<u>100.0%</u>	<u>14.4%</u>

Net sales for the three months ended March 31, 2015 in the North America region increased as compared to the three months ended March 31, 2014, due to strong demand for our consumables offerings, as well as the inclusion of SDM net sales in the North America region.

Net sales for the three months ended March 31, 2015 in the Asia Pacific region increased as compared to the three months ended March 31, 2014, primarily due to the expanding of our products and solutions to additional territories of the Asia Pacific region, partially offset by negative impact of foreign currency translation.

Net sales for the three months ended March 31, 2015 in the EMEA region decreased as compared to the three months ended March 31, 2014. In local currencies terms, net sales for the three months ended March 31, 2015 in the EMEA region increased as compared to the three months ended March 31, 2014. Net sales in the EMEA region were negatively impacted by approximately \$6.8 million primarily due to the devaluation of the Euro against the U.S. dollar, on a constant currency basis when compared to the same period last year.

Gross Profit

Gross profit for our products and services, as well as the percentage change, were as follows:

	Three Months Ended March 31,		
	2015	2014	% Change
	U.S. \$ in thousands		
Gross profit attributable to:			
Products	\$ 28,296	\$ 68,230	-58.5%
Services	17,792	9,498	87.3%
	<u>\$ 46,088</u>	<u>\$ 77,728</u>	<u>-40.7%</u>

Gross profit as a percentage of net sales for our products and services, as well as the percentage change, were as follows:

	Three Months Ended March 31,		
	2015	2014	% Change
Gross profit as a percentage of revenues from:			
Products	22.3%	52.8%	-57.7%
Services	38.6%	43.8%	-11.8%
Total gross profit	<u>26.7%</u>	<u>51.5%</u>	-48.2%

Gross profit attributable to products sales decreased by \$39.9 million, or 58.5%, to \$28.3 million for the three months ended March 31, 2015 as compared to \$68.2 million for the three months ended March 31, 2014. Gross profit attributable to products sales as a percentage of revenue decreased to 22.3% for the three months ended March 31, 2015 as compared to 52.8% for the three months ended March 31, 2014.

The decrease in gross profit attributable to products sales was primarily due to impairment charges related to certain of MakerBot's developed technology intangible assets of \$29.8 million, product mix, which was mainly due to sales that favored our lower-margin Production series and lower-end Design series systems, an overall decline in capacity utilization at MakerBot and flat intangible asset amortization expenses.

Gross profit attributable to services increased by \$8.3 million, or 87.3%, to \$17.8 million for the three months ended March 31, 2015 as compared to \$9.5 million for the three months ended March 31, 2014. Gross profit attributable to services as a percentage of services revenues in the three months ended March 31, 2015 decreased to 38.6%, as compared to 43.8% for the three months ended March 31, 2014. The increase in gross profit from services primarily reflects the inclusion of SDM operations in the three months ended March 31, 2015, which also resulted in a decrease in services gross margin as a percentage of services revenues.

Operating Expenses

The amount of each type of operating expense, as well as the percentage change and total operating expenses as a percentage of our total net sales, were as follows:

	Three Months Ended March 31,		
	2015	2014	% Change
	U.S. \$ in thousands		
Research and development, net	\$ 27,238	\$ 16,771	62.4%
Selling, general & administrative	102,608	67,617	51.7%
Goodwill impairment	150,400	-	N/A
Change in fair value of obligations in connection with acquisitions	(13,256)	(7,495)	76.9%
	<u>\$ 266,990</u>	<u>\$ 76,893</u>	247.2%
Percentage of net sales	154.6%	50.9%	

Research and development expenses, net for the three months ended March 31, 2015 increased by \$10.5 million, or 62.4%, as compared to the three months ended March 31, 2014. The increase was primarily due to an increase in headcount to support new research and development initiatives. The headcount increase is partially attributable to our acquisitions and reflects our continued investments in research and development projects, focusing on enhancing our AM technologies and developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, aimed at broadening user applications.

Research and development expense, net as a percentage of sales increased to 15.8% in the three months ended March 31, 2015 as compared to 11.1% in the three months ended March 31, 2014. This increase reflects our intention to continue to invest in research and development in order to bring a broad range of hardware and materials solutions as well as software solutions to create a leading 3D printing ecosystem. We are dedicated to effectively introduce our innovative technologies to the market in a timely manner.

Selling, general and administrative expenses for the three months ended March 31, 2015 amounted to \$102.6 million, compared to \$67.6 million for the three months ended March 31, 2014. Selling, general and administrative expenses for the three months ended March 31, 2015 as percentage of net sales were 59.4% as compared to 44.8% for the three months ended March 31, 2014.

The increase of our selling, general and administrative expenses was primarily attributed to impairment charges related to MakerBot's customer relationships intangible assets of \$13.4 million, the inclusion of SDM operations together with post-merger integration expenses relating to our new SDM branding initiatives, which added \$9.6 million, higher expenses for strategic and marketing initiatives, and costs of expanding our sales and marketing infrastructure, as well as headcount increase to support our continuing growth.

During the three months ended March 31, 2015, we recorded a goodwill impairment charge of \$ 150.4 million related to our MakerBot reporting unit. The main factors for this non-cash and non-tax-deductible expense included a decrease of MakerBot product and service revenues in the first quarter of 2015 as compared to the fourth quarter of 2014 and below our previous projections, and lower forecasted profitability due to current trends in the 3D desktop market. For further information, see note 4 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

During the three months ended March 31, 2015, we recorded a gain of \$13.3 million, compared to gain of \$7.5 million for the three months ended March 31, 2014, due to the revaluation of obligations in connection with acquisitions. The gain recorded during the three months ended March 31, 2015 was due to revaluation of the deferred consideration as part of the Solid Concepts transaction. The gain recorded during the three months ended March 31, 2014 was due to the revaluation of earn out obligations in connection with the MakerBot transaction.

Operating Income (Loss)

Operating income (loss) and operating income (loss) as a percentage of our total net sales, were as follows:

	Three Months Ended March 31,	
	2015	2014
	U.S. \$ in thousands	
Operating income (loss)	\$ (220,902)	\$ 835
Percentage of net sales	-127.9%	0.6%

Operating loss for the three months ended March 31, 2015 amounted to \$ 220.9 million compared to operating income of \$0.8 million for the three months ended March 31, 2014. The operating loss was primarily attributable to non-cash impairment charges related to MakerBot's goodwill and certain of its other intangible assets of \$ 193.6 million as well as higher selling, general and administrative expenses. The operating loss was partially offset by gain due to revaluation of obligations in connection with acquisitions as described above.

Financial expense, net

Financial expense, net which is mainly comprised of foreign currencies effects and interest expense, net amounted to \$5.1 million for the three months ended March 31, 2015, compared to financial expense, net of \$1.3 million for the three months ended March 31, 2014. The increase was primarily due to foreign currency transaction losses due to changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the Euro), which are partially related to intercompany receivables and payables denominated in a foreign currency, partially offset by revaluation of forward contracts that hedged the corresponding currency exposure.

Income Taxes

Income taxes and income taxes as a percentage of net loss before taxes, as well as the percentage change, were as follows:

	Three Months Ended		% Change
	March 31,		
	2015	2014	
	U.S. \$ in thousands		
Income taxes	\$ (9,622)	\$ (4,588)	109.7%
As a percent of loss before			
income taxes	4.3%	915.8%	

Our effective tax rate for the three months ended March 31, 2015 and 2014 was 4.3% and 915.8%, respectively. Our effective tax rate has varied significantly due to changes in the mix of taxable income and tax loss between the U.S. and Israel.

Our effective tax rate for the three months ended March 31, 2015 was impacted by impairment of goodwill associated with the Makerbot acquisition, which is non-tax deductible, and therefore had a significant impact on the effective tax rate for the three months ended March 31, 2015.

The income of \$7.5 million attributable to the change in fair value of the Company's earn-out obligations in the three months ended March 31, 2014, was non-taxable, and therefore had a significant impact on the effective tax rate in this period.

Net Income (Loss) and Net Income (Loss) Per Share Attributable to Stratasys Ltd .

Net income (loss) and net income (loss) per diluted share attributable to Stratasys Ltd. , were as follows:

	Three Months Ended March 31,	
	2015	2014
	U.S. \$ in thousands	
Net loss attributable to Stratasys Ltd.	\$ (216,288)	\$ 4,087
Percentage of net sales	-125.2%	2.7%
Net income (loss) per diluted share	\$ (4.24)	\$ 0.08

Net loss attributable to Stratasys Ltd. for the three months ended March 31, 2015 was \$ 216.3 million as compared to net income of \$4.1 million for the three months ended March 31, 2014. This increase of the net loss attributable to Stratasys Ltd. was due to the factors that were previously discussed, primarily the impairment charges related to MakerBot goodwill and certain of its intangibles assets and the increase in our selling, general and administrative expenses, which were partially offset by gain due to revaluation of obligations in connection with acquisitions and higher income tax benefit.

Diluted loss per share was \$4.24 for the three months ended March 31, 2015, compared to net income per share of \$0.08 for the three months ended March 31, 2014. The weighted average fully diluted share count for the three months ended March 31, 2015 was 51.0 million, compared to 51.2 million for the three months ended March 31, 2014.

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which excludes the categories of expenses 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 (y) excluding non-cash charges such as share-based compensation, amortization of intangible assets, one time write - off of deferred tax assets, and impairment charges that either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the income statement, as assessed by management. These non-GAAP financial measures are presented to permit investors to more fully understand how management assesses our performance. 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 events during a period, such as the effects of merger-related, non-cash compensation and other charges, and may not provide a comparable view of our performance to other companies in our industry. The presentation of these non-GAAP measures is not meant to be considered in isolation or as an alternative to any measure of financial performance calculated in accordance with GAAP.

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,					
	2015	Non-GAAP	2015	2014	Non-GAAP	2014
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	\$ 46,088	\$ 47,321	\$ 93,409	\$ 77,728	\$ 14,396	\$ 92,124
Operating income (loss) (1,2)	(220,902)	220,126	(776)	835	21,919	22,754
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(216,288)	218,312	2,024	4,087	16,511	20,598
Diluted net income (loss) per share attributable to Stratasys Ltd. (4)	\$ (4.24)	\$ 4.28	\$ 0.04	\$ 0.08	\$ 0.32	\$ 0.40
(1) Impairment of other intangible assets		29,782			-	
Acquired intangible assets amortization expense		14,905			13,460	
Non-cash stock-based compensation expense		1,833			912	
Merger and acquisition related expense		801			24	
		<u>47,321</u>			<u>14,396</u>	
(2) Goodwill impairment		150,400			-	
Impairment of other intangible assets		13,423			-	
Acquired intangible assets amortization expense		6,456			5,364	
Non-cash stock-based compensation expense		7,927			5,824	
Change in fair value of obligations in connection with acquisitions		(13,256)			(7,495)	
Merger and acquisition related expense		7,855			3,830	
		<u>172,805</u>			<u>7,523</u>	
		<u>220,126</u>			<u>21,919</u>	
(3) Tax expense related to adjustments		(1,814)			(5,408)	
		<u>\$ 218,312</u>			<u>\$ 16,511</u>	
(4) Weighted average number of ordinary shares outstanding- Diluted	50,956		52,341	51,240		51,240

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2015	2014
	U.S \$ in thousands	
Net income (loss)	\$ (216,404)	\$ 4,087
Goodwill impairment	150,400	-
Impairment of other intangible assets	43,205	-
Depreciation and amortization	28,907	23,367
Deferred income taxes	(13,830)	(5,871)
Stock-based compensation	9,760	6,736
Excess tax benefit from stock options	-	(238)
Change in fair value of obligations in connection with acquisitions	(13,256)	(7,495)
Foreign currency transaction effect and other items	8,755	22
Change in working capital and other items	6,367	(15,748)
Net cash provided by operating activities	3,904	4,860
Net cash used in investing activities	(11,668)	(10,903)
Net cash used in financing activities	(9,651)	(893)
Effect of exchange rate changes on cash and cash equivalents	(1,694)	16
Net change in cash and cash equivalents	(19,109)	(6,920)
Cash and cash equivalents, beginning of period	442,141	414,088
Cash and cash equivalents, end of period	\$ 423,032	\$ 407,168

Our cash and cash equivalents balance decreased to \$423.0 million at March 31, 2015 from \$442.1 million at December 31, 2014. The decrease in cash and cash equivalents in the three months ended March 31, 2015 was due to cash used in investing activities in an amount of \$11.7 million, cash of \$9.7 million used in financing activities and cash flows provided by operating activities in an amount of \$3.9 million.

Our cash and cash equivalents balance decreased to \$407.2 million at March 31, 2014 from \$414.1 million at December 31, 2013. The decrease was primarily due to net cash used in investing activities of \$10.9 million, offset by net cash provided by operating activities of \$ 4.9 million.

Cash flows from operating activities

We generated cash from operating activities of \$3.9 million during the three months ended March 31, 2015. The net loss of \$ 216.4 million was favorably adjusted due to non-cash charges for impairment of goodwill and other intangible assets of \$ 193.6 million, depreciation and amortization of \$28.9 million, stock-based compensation expense of \$9.8 million and foreign currency translation loss of \$8.7 million, which was primarily due to the devaluation of the Euro against the U.S dollar. Changes in deferred income taxes of \$13.8 million and non-cash changes in the fair value of obligations in connections with acquisitions of \$13.3 million unfavorably affected cash from operating activities. Changes in working capital items consisted mainly of an increase in inventories of \$15.3 million, partially offset by a decrease in accounts receivables of \$4.6 million and an increase in accounts payable of \$10.1 million. The increase in inventory reflects our investments in new product introductions and our supply flexibility.

During the three months ended March 31, 2014, we generated cash from operating activities of \$4.9 million. The net income of \$4.1 million was favorably adjusted due to non-cash charges in depreciation and amortization and stock-based compensation expense partially offset by the change in the fair value of earn-out obligations. Non-cash items that unfavorably affected cash from operating activities were mainly the changes in deferred income taxes of \$5.9 million and the changes in working capital of \$15.7 million.

Cash flows from investing activities

We used cash of \$11.7 million in our investing activities during the three months ended March 31, 2015. Cash was primarily used to purchase property and equipment and to fund our acquisitions, which was partially offset by cash provided by the change in short-term bank deposits.

Property, plant and equipment purchases totaled \$14.4 million. Our principal property and equipment purchases were for the enhancement of our manufacturing capabilities of our facilities in the United States and for our facility in Germany.

We used cash of \$3.8 million to fund our merger and acquisitions during the three months ended March 31, 2015.

Cash of \$8.7 million was provided by proceeds from short-term bank deposits due to the maturity of those deposits in the three months ended March 31, 2015.

In the three months ended March 31, 2014, we used cash of \$10.9 million in our investing activities primarily due to purchases of property and equipment to support our manufacturing capabilities of our facilities in the United States and Israel as well as our offices in Germany.

Cash flows from financing activities

We used cash of \$9.7 million in our financing activities during the three months ended March 31, 2015. Cash of \$11.6 million was used to finance our obligations in connections with acquisitions and was offset by proceeds of \$2.0 million from the exercise of stock options.

In the three months ended March 31, 2014, we used cash of \$0.9 million in our financing activities. A cash payment of \$2.2 million in connection with the acquisition of a non-controlling interest was offset by exercises of stock options and the related excess tax benefit, which provided cash of \$1.3 million.

Capital resources and capital expenditures

Our total current assets amounted to \$762.3 million as of March 31, 2015, of which \$424.9 million consisted of cash and cash equivalents and short-term bank deposits. Total current liabilities amounted to \$239.9 million. Our cash and cash equivalents and short-term bank deposits are primarily held in banks in Israel, Switzerland and the U.S., with only minor amounts subject to any restrictions on movement of balances within our company and our subsidiaries.

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

In February 2015, we announced our new long-term investment plan to help enable growth, maintain market leadership and meet future opportunities. We may make additional investments in property, plant and equipment, expansion of our operations into additional geographies, information technology, or IT, human resources and sales and marketing required for future growth. We re-examined our operating plans for 2015 and updated our estimate for capital expenditure to a level of \$80 to \$110 million. We believe that we will have adequate cash and cash generated from operating activities to fund our ongoing operations and that these sources of liquidity will be sufficient to satisfy our capital expenditure requirements for the next twelve months.

Revolving credit facility

Pursuant to a credit agreement, dated November 7, 2013, with Bank of America, N.A., or BofA, as administrative agent and swing line lender, and the other lenders party thereto, our company (via Stratasys International Ltd., our wholly-owned subsidiary, which serves as borrower) has in place a five-year revolving credit facility in an aggregate principal amount of up to \$250 million. The revolving credit facility permits swing line loans up to the lesser of: (1) \$25 million and (2) the aggregate commitments of all of the lenders. All of the obligations under the credit agreement are unconditionally guaranteed by our company and by our (and the borrower's) active U.S. and Israeli subsidiaries.

The credit agreement contains customary representations and warranties, and affirmative and negative covenants. The negative covenants include, without limitation, restrictions on indebtedness, liens, investments, and certain dispositions. The negative covenants are each subject to a number of specific exceptions, as well as broader exceptions that are a function of our consolidated financial status. These broader exceptions include, among other things, the ability of our company, the borrower, or any of their subsidiaries to make investments, consummate acquisitions (as such terms are defined in the credit agreement), and incur additional unsecured indebtedness in the form of convertible unsecured bonds or similar convertible securities, as long as certain conditions are met. During April 2015 we borrowed an additional \$125 million under the credit facility to support the funding of the expected growth of our business. Including amounts previously borrowed, we have \$175 million principal amount of debt outstanding under the revolving credit facility.

We believe that we were in compliance with the all covenants under the credit agreement as of March 31, 2015. For a more complete description of the credit facility, please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Revolving Credit Facility” in our 2014 Annual Report.

Acquisitions

As discussed in note 2 to our condensed consolidated financial statements, we acquired Solid Concepts on July 14, 2014. At the closing, we paid approximately \$162 million as part of the purchase price and other related expenses, of which \$60 million was paid in cash and \$98 million was paid in our shares; the \$4 million balance of the initial purchase price was deferred for six months and was paid in cash during January 2015. The remaining related payments, including deferred consideration and retention bonus payments, are subject to certain adjustments based on our share price. Based on our share price as of March 31, 2015, the total undiscounted amount of the deferred payments consideration and retention bonus will amount to approximately \$56.1 million. Subject to certain requirements for cash payments, we retain the discretion to settle any of the amounts payable under the Solid Concepts transaction in our shares, cash or any combination of the two. We believe that our existing cash reserves and our revolving credit facility will be adequate to permit us to make the cash payments if we choose to pay the remaining amount in cash.

As part of our business strategy, we plan to consider and, as appropriate, make acquisitions of other businesses, products, product rights or technologies. Our cash reserves, revolving credit facility 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. In addition, as a result of our acquisition efforts, we are likely to experience significant charges to earnings and significant cash outflows for mergers and related expenses (whether or not our efforts are successful) that may include transaction costs, closing costs or costs of restructuring activities.

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 2014 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 of which this Operating and Financial Review is a part, 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:

- our ability to continue efficiently and successfully integrate the operations of Stratasys, Inc. and Objet Ltd. after their merger as well as MakerBot, Solid Concepts, Harvest and GrabCAD after their acquisition and to successfully establish and execute effective post-acquisition integration plans;
- the overall global economic environment;
- the impact of competition and new technologies;
- general market, political and economic conditions in the countries in which we operate;
- projected capital expenditures and liquidity;
- changes in our strategy;
- government regulations and approvals;
- changes in customers’ budgeting priorities;
- failure of demand for our products and services to grow as expected;
- reduction in our profitability due to shifting in our product mix too far into lower margin products or our shifting in our revenues mix significantly towards our AM services business.
- possible additional liability relating to parts manufactured by our digital manufacturing services;
- litigation and regulatory proceedings; and
- those factors referred to in Item 3.D “Key Information - Risk Factors”, Item 4, “Information on the Company”, and Item 5, “Operating and Financial Review and Prospects” in our 2014 Annual Report, as well as in the 2014 Annual Report generally.

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2014 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 RISK

Reference is made to Item 11 “Quantitative and Qualitative Disclosures about Market Risk” in our 2014 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 10- “Contingencies” in the notes to our unaudited condensed consolidated financial statements attached as Exhibit 99.1

