

STRATASYS LTD.

FORM 6-K (Report of Foreign Issuer)

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Address	7665 COMMERCE WAY EDEN PRAIRIE, MN 55344
Telephone	972-8-931-4314
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Industry	Computer Peripherals
Sector	Technology
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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 2016

Commission File Number 001-35751

STRATASYS LTD.

(Translation of registrant's name into English)

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

**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of this Form 6-K), and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished .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 9, 2016, Stratasys Ltd., or Stratasys, released its financial results for the three months ended March 31, 2016.

Attached hereto as Exhibit 99.1 are the unaudited, condensed consolidated financial statements of Stratasys for the three months ended March 31, 2016 (including the notes thereto) (the “ Q1 2016 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, 2016, 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 2016 Financial Statements, formatted in XBRL (eXtensible Business Reporting Language), consisting of the following sub-exhibits:

Exhibit

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

SIGNATURES

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

Dated: May 9, 2016

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, 2016
(UNAUDITED)

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FOR THE THREE MONTHS ENDED MARCH 31, 2016
(UNAUDITED)**

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STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 213,176	\$ 257,592
Short-term bank deposits	67,000	571
Accounts receivable, net	109,132	123,215
Inventories	124,479	123,658
Net investment in sales-type leases	12,833	11,704
Prepaid expenses	7,362	8,469
Other current assets	20,243	21,864
Total current assets	554,225	547,073
Non-current assets		
Goodwill	386,559	383,853
Other intangible assets, net	238,431	252,468
Property, plant and equipment, net	200,704	201,934
Net investment in sales-type leases - long-term	18,569	17,785
Deferred income taxes and other non-current assets	14,313	11,243
Total non-current assets	858,576	867,283
Total assets	\$ 1,412,801	\$ 1,414,356
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 37,549	\$ 39,021
Accrued expenses and other current liabilities	34,510	31,314
Accrued compensation and related benefits	41,380	34,052
Income taxes payable	11,951	11,395
Obligations in connection with acquisitions	5,058	4,636
Deferred revenues	52,031	52,309
Total current liabilities	182,479	172,727
Non-current liabilities		
Obligations in connection with acquisitions - long-term	4,658	4,354
Deferred tax liabilities	14,694	16,040
Deferred revenues - long-term	8,463	7,627
Other non-current liabilities	24,571	22,428
Total non-current liabilities	52,386	50,449
Total liabilities	\$ 234,865	\$ 223,176
Contingencies (see note 9)		
Redeemable non-controlling interests	2,281	2,379
Equity		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousands shares; 52,107 thousands shares and 52,082 thousands shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	141	141
Additional paid-in capital	2,611,612	2,605,957
Accumulated other comprehensive loss	(6,502)	(10,774)
Accumulated deficit	(1,429,847)	(1,406,706)
Equity attributable to Stratasy Ltd.	1,175,404	1,188,618
Non-controlling interests	251	183
Total equity	1,175,655	1,188,801
Total liabilities and equity	\$ 1,412,801	\$ 1,414,356

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

STRATASYS LTD.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2016	2015
Net sales		
Products	\$ 118,634	\$ 126,667
Services	49,272	46,064
	<u>167,906</u>	<u>172,731</u>
Cost of sales		
Products	56,938	98,371
Services	29,799	28,272
	<u>86,737</u>	<u>126,643</u>
Gross profit	81,169	46,088
Operating expenses		
Research and development, net	25,115	27,238
Selling, general and administrative	76,387	102,608
Goodwill impairment	-	150,400
Change in fair value of obligations in connection with acquisitions	727	(13,256)
	<u>102,229</u>	<u>266,990</u>
Operating loss	(21,060)	(220,902)
Financial income (expenses), net	180	(5,124)
Loss before income taxes	(20,880)	(226,026)
Income taxes	2,291	(9,622)
Net loss	\$ (23,171)	\$ (216,404)
Net loss attributable to non-controlling interest	(30)	(116)
Net loss attributable to Stratasys Ltd.	<u>\$ (23,141)</u>	<u>\$ (216,288)</u>
Net loss per ordinary share attributable to Stratasys Ltd.		
Basic	\$ (0.44)	\$ (4.24)
Diluted	\$ (0.44)	\$ (4.24)
Weighted average ordinary shares outstanding		
Basic	52,098	50,956
Diluted	52,098	50,956
Comprehensive loss		
Net loss	\$ (23,171)	\$ (216,404)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	3,341	(6,408)
Unrealized gains on derivatives designated as cash flow hedges	931	380
Other comprehensive income (loss), net of tax	<u>4,272</u>	<u>(6,028)</u>
Comprehensive loss	(18,899)	(222,432)
Less: comprehensive loss attributable to non-controlling interests	(30)	(116)
Comprehensive loss attributable to Stratasys Ltd.	<u>\$ (18,869)</u>	<u>\$ (222,316)</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,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (23,171)	\$ (216,404)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	23,496	28,907
Stock-based compensation	5,623	9,760
Goodwill impairment	-	150,400
Impairment of other intangible assets	-	43,205
Foreign currency transaction loss (gain)	(4,189)	8,708
Deferred income taxes	(889)	(13,830)
Change in fair value of obligations in connection with acquisitions	727	(13,256)
Other non-cash items	614	47
Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions:		
Accounts receivable, net	15,558	4,563
Inventories	363	(15,348)
Net investment in sales-type leases	(1,913)	(1,819)
Other receivables and prepaid expenses	2,089	8,916
Other non-current assets	287	(1,104)
Accounts payable	(951)	10,093
Other current liabilities	11,663	(5,595)
Deferred revenues	(79)	2,747
Other non-current liabilities	2,356	3,914
Net cash provided by operating activities	31,584	3,904
Cash flows from investing activities		
Purchase of property and equipment	(7,585)	(14,408)
Investment in short-term bank deposits	(67,264)	(1,709)
Purchase of investments	(4,000)	-
Proceeds from maturities of short-term bank deposits	1,558	8,725
Cash paid for acquisitions, net of cash acquired	-	(3,801)
Acquisition of intangible assets	(245)	(376)
Other investing activities	(70)	(99)
Net cash used in investing activities	(77,606)	(11,668)
Cash flows from financing activities		
Proceeds from exercise of stock options	122	1,969
Payments of obligations in connection with acquisitions	-	(11,620)
Net cash provided by (used in) financing activities	122	(9,651)
Effect of exchange rate changes on cash and cash equivalents	1,484	(1,694)
Net change in cash and cash equivalents	(44,416)	(19,109)
Cash and cash equivalents, beginning of period	257,592	442,141
Cash and cash equivalents, end of period	\$ 213,176	\$ 423,032
Supplemental disclosures of cash flow information:		
Transfer of fixed assets to inventory	503	2,502
Transfer of inventory to fixed assets	939	4,584

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

STRATASYS LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation and Consolidation

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

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

The consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. The results of operations for the three months ended March 31, 2016 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, 2015, filed as part of the Company’s Annual Report on Form 20-F for such year.

Recently issued and adopted accounting pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) which simplifies certain aspects of the accounting for share-based payments, including accounting for income taxes, classification of awards as either equity or liabilities, classification on the statement of cash flows as well as allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted in any annual or interim period for which financial statements have not yet been issued, and all amendments in the ASU that apply must be adopted in the same period. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements. In addition, the impact on the Company’s consolidated financial statements upon adoption is dependent on the Company’s share price at option expiration dates and restricted stock vesting dates.

In February 2016, the FASB issued a new ASU which revise lease accounting guidance. Under the new guidance, most lessees will be required to recognize on the balance sheet a right-of-use asset and corresponding lease liabilities for all leases, other than leases that meet the definition of a short-term lease. The liability and the right-of-use asset arising from the lease will be measured as the present value of the lease payments. The new standard is effective for fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition approach. The Company is currently evaluating the impact of the adoption of the new lease accounting guidance on its consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede the current revenue recognition guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle of the new revenue recognition standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. This standard may be applied retrospectively to each prior period presented 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 and the method of adoption to be used.

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

Note 2. Inventories

Inventories consisted of the following:

	March 31, 2016	December 31, 2015
	U.S. \$ in thousands	
Finished goods	\$ 77,105	\$ 78,604
Work-in-process	7,883	6,559
Raw materials	39,491	38,495
	<u>\$ 124,479</u>	<u>\$ 123,658</u>

Note 3. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company's goodwill for the three months ended March 31, 2016, were as follows:

	(U.S. \$ in millions)
Goodwill as of January 1, 2016	\$ 383.9
Translation differences	2.7
Goodwill as of March 31, 2016	<u>\$ 386.6</u>

Other Intangible Assets

Other intangible assets consisted of the following:

	March 31, 2016				December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Loss	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Loss	Net Book Value
	U.S. \$ in thousands							
Developed technology	\$ 509,673	\$ (168,124)	\$ (203,170)	\$ 138,379	\$ 509,827	\$ (157,862)	\$ (203,170)	\$ 148,795
Patents	18,232	(10,454)	-	7,778	17,785	(10,008)	-	7,777
Trademarks and trade names	60,182	(15,044)	(27,698)	17,440	60,141	(14,463)	(27,698)	17,980
Customer relationships	150,915	(44,961)	(34,720)	71,234	150,677	(41,708)	(34,720)	74,249
Non-compete agreements	10,843	(5,874)	(4,969)	-	10,843	(5,874)	(4,969)	-
Capitalized software development costs	21,555	(17,584)	(1,379)	2,592	21,389	(17,351)	(1,379)	2,659
In process research and development	22,179	-	(21,171)	1,008	22,179	-	(21,171)	1,008
	<u>\$ 793,579</u>	<u>\$ (262,041)</u>	<u>\$ (293,107)</u>	<u>\$ 238,431</u>	<u>\$ 792,841</u>	<u>\$ (247,266)</u>	<u>\$ (293,107)</u>	<u>\$ 252,468</u>

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

Amortization expense relating to intangible assets for the three-month periods ended March 31, 2016 and 2015 was approximately \$14.7 million and \$22.0 million, respectively.

As of March 31, 2016, estimated amortization expense relating to intangible assets currently subject to amortization for each of the following periods were as follows:

	Estimated amortization expense (U.S. \$ in thousands)
Remaining nine months of 2016	\$ 43,698
2017	57,924
2018	55,707
2019	42,050
2020	15,057
Thereafter	22,987
Total	\$ 237,423

Note 4. 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. Net income (loss) per basic share is computed by dividing net income (loss) attributable to common stockholders of Stratasys Ltd., including adjustment of redeemable non-controlling interest to its redemption amount, by the weighted average number of shares outstanding for the reporting periods.

Diluted net income (loss) per share is computed by dividing the basic net income (loss) per share including adjustment for elimination of the dilutive effect of the Company's Deferred Payments liability revaluation to its fair value, by 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, shares held back from issuance in connection with the transaction whereby the Company acquired MakerBot (the "MakerBot transaction") and presumed share settlement of the Company's Deferred Payments liability and other retention settlements in connection with its acquisitions.

The following table presents the numerator and denominator of the basic and diluted net loss per share computations for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
	In thousands, except per share amounts	
Numerator:		
Net loss attributable to Stratasys Ltd.– for the computation of basic and diluted net loss per share	\$ (23,141)	\$ (216,288)
Denominator:		
Weighted average shares – denominator for basic and diluted net loss per share	52,098	50,956
Net loss per share attributable to Stratasys Ltd.		
Basic	\$ (0.44)	\$ (4.24)
Diluted	\$ (0.44)	\$ (4.24)

STRATASYS LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

None of the above mentioned adjustments had a dilutive effect on the diluted net loss per share. The computation of diluted net loss per share, excluded share awards of 3.56 million shares and 2.95 million shares for the three months ended March 31, 2016 and 2015, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

Note 5. Income Taxes

The Company had negative effective tax rate of 11.0% for the three months ended March 31, 2016 compared to effective tax rate of 4.3% for the three months ended March 31, 2015. The Company's effective tax rate has varied significantly due to changes in the mix of taxable income and loss between Israel and the U.S. , driven by no tax benefit being recorded for its U.S. subsidiaries tax losses.

During the three months ended March 31, 2016, the Company provided a valuation allowance of \$11.9 million for its deferred tax assets related to its U.S. subsidiaries that are not expected to be realized in the near-term.

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 reporting unit which was non-tax deductible. In addition, the impairment of MakerBot intangible assets 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 the near-term .

The Company will continue to monitor whether the realization of its remaining deferred tax assets is more likely than not.

Note 6. Fair Value Measurements

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

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

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

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

STRATASYS LTD.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)***Financial instruments measured at fair value*

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

	March 31, 2016		
	(U.S. \$ in thousands)		
	Level 2	Level 3	Total
Assets:			
Foreign exchange forward contracts not designated as hedging instruments	\$ 383	\$ -	\$ 383
Foreign exchange forward contracts designated as hedging instruments	823	-	823
Liabilities:			
Foreign exchange forward contracts not designated as hedging instruments	(2,097)	-	(2,097)
Obligations in connection with acquisitions	-	(7,718)	(7,718)
	<u>\$ (891)</u>	<u>\$ (7,718)</u>	<u>\$ (8,609)</u>

	December 31, 2015		
	(U.S. \$ in thousands)		
	Level 2	Level 3	Total
Assets:			
Foreign exchange forward contracts not designated as hedging instruments	\$ 866	\$ -	\$ 866
Foreign exchange forward contracts designated as hedging instruments	23	-	23
Liabilities:			
Foreign exchange forward contracts not designated as hedging instruments	(432)	-	(432)
Foreign exchange forward contracts designated as hedging instruments	(131)	-	(131)
Obligations in connection with acquisitions	-	(6,991)	(6,991)
	<u>\$ 326</u>	<u>\$ (6,991)</u>	<u>\$ (6,665)</u>

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

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

STRATASYS LTD.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)***Other fair value disclosures*

The following table 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, 2016	December 31, 2015
	(U.S. \$ in thousands)	
Fair value at the beginning of the period	\$ 6,991	\$ 35,656
Settlements	-	(4,994)
Change in fair value recognized in earnings	727	(23,671)
Fair value at the end of the period	<u>\$ 7,718</u>	<u>\$ 6,991</u>

The Company's obligations in connection with acquisitions as of March 31, 2016 are related to the deferred payments for the Company's acquisition of Solid Concepts (the "Solid Concepts transaction"). As part of the Solid Concepts transaction, which was completed in July 2014, the Company is obligated to pay additional deferred payments in three separate annual installments after the Solid Concepts transaction date ("deferred payments"). Subject to certain requirements for cash payments, the Company retains the discretion to settle the deferred payments in its shares, cash or any combination of the two. The deferred payments are also subject to certain adjustments based on the Company's share price. During July 2015, the Company issued 118,789 ordinary shares valued at \$4.1 million and paid cash of \$0.9 million to settle the first annual installment of the deferred payments.

The deferred payments are recognized as liabilities at fair value in the Company's consolidated balance sheets and are classified as short-term and long-term obligations in connection with acquisitions. The fair value of the deferred payments was determined based on the closing market price of the Company's ordinary shares on the Solid Concepts transaction date, adjusted to reflect a discount for lack of marketability for the applicable periods. The discount for lack of marketability was calculated based on the historical volatility of the Company's share price and thus represents a Level 3 measurement within the fair value hierarchy. As of March 31, 2016, the fair value of the remaining deferred payments was \$7.7 million. As of March 31, 2015, the total amount of the remaining deferred payments, which does not reflect a discount for lack of marketability, was approximately \$8.9 million, based on the Company's share price as of that date.

The fair value of the deferred payments is primarily linked to the Company's share price. An increase of 10% in the Company's share price as of March 31, 2016 would have increased the fair value of the remaining deferred payments by \$0.8 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, 2016 would increase the fair value of the Company's deferred payments liability by approximately \$0.2 million.

During the three months ended March 31, 2016 and 2015, the Company recorded a loss of \$0.7 million and a gain of \$13.3 million, respectively, due to the revaluation of the deferred payments under change in fair value of obligations in connection with acquisitions in the Company's consolidated statements of operations and comprehensive loss.

STRATASYS LTD.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note 7. Derivative instruments and hedging activities:**

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

	Balance sheet location	Fair Value		Notional Amount	
		March 31,	December 31,	March 31,	December 31,
		2016	2015	2016	2015
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 383	\$ 866	\$ 31,184	\$ 54,586
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	823	23	21,592	2,700
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(2,097)	(432)	53,075	35,036
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	Accrued expenses and other current liabilities	-	(131)	-	13,682
		\$ (891)	\$ 326	\$ 105,851	\$ 106,004

The Company enters into foreign exchange forward contracts to hedge its foreign currency exposure resulting from revenue and expense in major foreign currencies in which it operates and to reduce the foreign currency fluctuations on certain of its balance sheet items.

As of March 31, 2016, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$65.7 million, \$8.6 million and \$10.0 million, and are used to reduce foreign currency exposures of the Euro, New Israeli Shekel (the "NIS") and Japanese Yen, respectively. With respect to such derivatives, losses of \$2.9 million and gains of \$4.2 million were recognized under financial income (expense), net for the three months ended March 31, 2016 and 2015, respectively. Such losses and gains partially offset the revaluation changes of foreign currencies the balance sheet items, which are also recognized under financial income (expense), net.

As of March 31, 2016, the Company had in effect foreign exchange forward contracts for the conversion of \$21.6 million into NIS. These foreign exchange forward contracts were designated as 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 NIS. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss. These contracts mature through December 2016.

Note 8. Equity**a. Stock-based compensation plans**

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

	Three Months Ended March 31,	
	2016	2015
U.S \$ in thousands		
Cost of sales	\$ 723	\$ 1,833
Research and development, net	1,359	1,868
Selling, general and administrative	3,541	6,059
Total stock-based compensation expenses	\$ 5,623	\$ 9,760

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

A summary of the Company's stock option activity for the three months ended March 31, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2016	2,449,742	\$ 39.73
Granted	481,489	23.24
Exercised	(13,820)	8.86
Forfeited	(68,120)	41.49
Options outstanding as of March 31, 2016	<u>2,849,291</u>	<u>\$ 37.05</u>
Options exercisable as of March 31, 2016	<u>1,082,060</u>	<u>\$ 34.32</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. The weighted-average grant date fair value of options that were granted during the three-month period ended March 31, 2016 was \$12.52 per option.

During the three-month periods ended March 31, 2016 and 2015, the Company issued 13,820 shares and 91,528 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$0.1 million and \$2.0 million for the three-month periods ended March 31, 2016 and 2015, respectively.

As of March 31, 2016, the unrecognized compensation cost related to all unvested, equity-classified stock options of \$27.0 million is expected to be recognized as an expense over a weighted-average period of 2.9 years.

A summary of the Company's RSUs activity for the three months ended March 31, 2016 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested RSUs outstanding as of January 1, 2016	559,124	\$ 81.35
Forfeited	(41,483)	81.33
Vested	(11,358)	98.88
Unvested RSUs outstanding as of March 31, 2016	<u>506,283</u>	<u>\$ 80.96</u>

The fair value of RSUs is determined based on the quoted price of the Company's ordinary shares on the date of the grant. There were no new RSUs grants during the three months ended March 31, 2016.

As of March 31, 2016, the unrecognized compensation cost related to all unvested, equity-classified RSUs of \$22.1 million is expected to be recognized as expense on a straight-line basis over a weighted-average period of 2.4 years.

STRATASYS LTD.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****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, 2016 and 2015:

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

	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 loss 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>

Note 9. Contingencies*Claims Related to Company Equity*

On March 4, 2013, five current or former minority shareholders (two of whom were former directors) of the Company filed two lawsuits against the Company in an Israeli central district court. The lawsuits 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.

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

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. The court has dismissed the lawsuit of one of the former directors due to lack of cause. The suits are currently at the stage of pre-trial hearings.

Securities Law Class Actions

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

On April 15, 2015, the cases were consolidated for all purposes, and on April 24, 2015, the court entered an order appointing lead plaintiffs and approving their selection of lead counsel for the putative class. On July 1, 2015, lead plaintiffs filed their consolidated complaint. On August 31, 2015, the defendants moved to dismiss the consolidated complaint for failure to state a claim. The Court heard the motion on December 11, 2015, but has not rendered a decision. 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.

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, 2015, or our 2015 Annual Report.

Overview of Business and Trend Information

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

We have been at the forefront of 3D printing innovation for more than 25 years. We offer a broad mix of technologies, deep industry expertise and the most flexible implementation options to meet our customers' needs. We offer complete solutions for 3D printing, including printing systems, consumables, paid parts and professional services, and 3D content.

Our 3D printers include systems ranging from entry-level desktop 3D printers to systems for rapid prototyping, or RP, and large production systems for direct digital manufacturing, or DDM. We also develop, manufacture and sell materials for use with our systems and provide related services offerings. We offer a powerful range of additive manufacturing materials, including clear, rubberlike and biocompatible photopolymers, and tough high-performance thermoplastics. We believe that the range of 3D printing consumable materials that we offer, consisting of 14 Fused Deposition Modeling, or FDM, cartridge-based materials, 25 Polyjet cartridge-based materials, five Smooth Curvature Printing, or SCP, inkjet-based materials and 158 non-color digital materials, and over 1,500 color variations, is the widest in the industry. Our service offerings include Stratasys Direct Manufacturing, or SDM, printed parts services which offers AM capabilities encompassing a wide range of technologies allowing for plastic and metal parts for rapid prototyping and production processes, as well as related professional services.

We conduct our business globally and provide products and services to our global customer base through our main operational facilities which are located in Israel, the United States, Germany and Hong Kong as well through our offices in China, Italy, Brazil, India, Japan, Korea and Singapore. Our extensive global reach is well-positioned through a network of more than 200 resellers and selling agents around the world and an online channel. We have more than 2,600 employees and hold more than 800 granted or pending additive manufacturing patents globally.

We may make investments in strategic acquisitions, strategic alliances, property, plant and equipment, new technologies, process improvements, information technology, research and development projects, and human resource activities that we believe will help us pursue our product and solutions strategies and support future growth.

Summary of Financial Results

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. In the opinion of our management, all adjustments considered necessary for a fair statement of the unaudited condensed consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual results, on a GAAP basis, for the three months ended March 31, 2016 with the corresponding period in 2015.

Results of Operations

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

	Three Months Ended March 31,			
	2016		2015	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 167,906	100.0%	172,731	100.0%
Cost of sales	86,737	51.7%	126,643	73.3%
Gross profit	81,169	48.3%	46,088	26.7%
Research and development, net	25,115	15.0%	27,238	15.8%
Selling, general and administrative	76,387	45.5%	102,608	59.4%
Goodwill impairment	-	0.0%	150,400	87.1%
Change in fair value of obligations in connection with acquisitions	727	0.4%	(13,256)	-7.7%
Operating loss	(21,060)	-12.5%	(220,902)	-127.9%
Financial income (expense), net	180	0.1%	(5,124)	-3.0%
Loss before income taxes	(20,880)	-12.4%	(226,026)	-130.9%
Income taxes	2,291	1.4%	(9,622)	-5.6%
Net loss attributable to Stratasys Ltd.	(23,141)	-13.8%	(216,288)	-125.2%

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,		
	2016	2015	% Change
	U.S. \$ in thousands		
Products	\$ 118,634	\$ 126,667	-6.3%
Services	49,272	46,064	7.0%
	<u>\$ 167,906</u>	<u>\$ 172,731</u>	-2.8%

Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) decreased by \$8.0 million for the three months ended March 31, 2016, or 6.3%, as compared to the three months ended March 31, 2015. The decrease in products net sales was driven by a decrease in our systems revenues and was partially offset by an increase in our sales of consumables.

The decrease in systems and other products revenue reflects lower sales across all product lines, primarily our MakerBot desktop and entry-level Design series systems.

The number of systems shipped in the three months ended March 31, 2016 decreased to 5,125 units as compared to 7,536 units shipped in the three months ended March 31, 2015. The decrease in the number of systems shipped was primarily due to a decrease in MakerBot unit sales.

Consumables net sales for the three months ended March 31, 2016 increased by 5.9% as compared to the three months ended March 31, 2015. The increase was driven by addition of advanced material offerings and our growing installed base of systems.

Services Revenues

Services revenues (including SDM, maintenance and other services) increased by \$3.2 million for the three months ended March 31, 2016, or 7.0%, as compared to the three months ended March 31, 2015. The increase in services revenues was primarily attributable to maintenance contracts and service parts, reflecting our growing installed base of systems, as well as increase in SDM revenues.

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,				
	2016		2015		% Change
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales	
North America	\$ 98,038	58.4%	\$ 97,549	56.5%	0.5%
EMEA	34,641	20.6%	37,627	21.8%	-7.9%
Asia Pacific	32,899	19.6%	35,305	20.4%	-6.8%
Other	2,328	1.4%	2,250	1.3%	3.5%
	<u>\$ 167,906</u>	<u>100.0%</u>	<u>\$ 172,731</u>	<u>100.0%</u>	<u>-2.8%</u>

Net sales for the three months ended March 31, 2016 in the North America region were relatively flat as compared to the three months ended March 31, 2015, due to higher services revenues and strong demand for our consumables offerings, partially offset by lower sales of our systems.

Net sales for the three months ended March 31, 2016 in the EMEA and Asia Pacific regions decreased by \$3.0 million and \$2.4 million, respectively, as compared to the three months ended March 31, 2015, due to lower sales of our systems, partially offset by higher consumables net sales.

Gross Profit

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

	Three Months Ended March 31,		
	2016	2015	% Change
	U.S. \$ in thousands		
Gross profit attributable to:			
Products	\$ 61,696	\$ 28,296	118.0%
Services	19,473	17,792	9.4%
	<u>\$ 81,169</u>	<u>\$ 46,088</u>	<u>76.1%</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,		
	2016	2015	% Change
Gross profit as a percentage of revenues from:			
Products	52.0%	22.3%	132.8%
Services	39.5%	38.6%	2.3%
Total gross profit	<u>48.3%</u>	<u>26.7%</u>	81.2%

Gross profit attributable to products sales increased by \$33.4 million, or 118.0%, to \$61.7 million for the three months ended March 31, 2016, as compared to \$28.3 million for the three months ended March 31, 2015. Gross profit attributable to products sales as a percentage of revenue increased to 52.0% for the three months ended March 31, 2016 as compared to 22.3% for the three months ended March 31, 2015.

The increase in gross profit attributable to products sales was primarily due to non-recurring impairment charges of \$29.8 million, related to certain of MakerBot's developed technology intangible assets, that were recorded during the three months ended March 31, 2015, decrease in intangible asset amortization expenses as well as changes in products mix that favored relatively higher-margin systems.

Gross profit attributable to services increased by \$1.7 million, or 9.4%, to \$19.5 million for the three months ended March 31, 2016, as compared to \$17.8 million for the three months ended March 31, 2015. Gross profit attributable to services as a percentage of services revenues in the three months ended March 31, 2016 increased to 39.5%, as compared to 38.6% for the three months ended March 31, 2015. The increase in gross profit from services primarily reflects change in the mix of service offerings as well as the favorable impact of our cost-savings initiatives.

Operating Expenses

The amount of each type of operating expenses, 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,		
	2016	2015	% Change
	U.S. \$ in thousands		
Research and development, net	\$ 25,115	\$ 27,238	-7.8%
Selling, general and administrative	76,387	102,608	-25.6%
Goodwill impairment	-	150,400	-100.0%
Change in fair value of obligations in connection with acquisitions	727	(13,256)	-105.5%
	<u>\$ 102,229</u>	<u>\$ 266,990</u>	-61.7%
Percentage of net sales	60.9%	154.6%	

Research and development expenses, net for the three months ended March 31, 2016 decreased by \$2.1 million, or 7.8%, as compared to the three months ended March 31, 2015. The decrease was primarily due to our costs-savings initiatives to help focus our research and development investments in new 3D printing solutions.

Research and development expenses, net as a percentage of sales were 15.0% in the three months ended March 31, 2016 as compared to 15.8% in the three months ended March 31, 2015. The decrease in research and development expenses as a percentage of net sales was primarily due to the factors discussed above. Despite the decrease in our research and development expenses, we remain committed to invest significant resources in research and development. Our continued investments in research and development projects are essential to our future growth and our ability to remain competitive in the AM market. Our research and development projects reflects our intention to continue 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, as well as software solutions to create a leading 3D printing ecosystem. We are dedicated to effectively introducing our innovative technologies to the market in a timely manner.

Selling, general and administrative expenses for the three months ended March 31, 2016 decreased by \$26.2 million, or 25.6%, to \$76.4 million, as compared to \$102.6 million for the three months ended March 31, 2015. Selling, general and administrative expenses were 45.5% as percentage of net sales for the three months ended March 31, 2016, as compared to 59.4% for the three months ended March 31, 2015.

The decrease in our selling, general and administrative expenses was primarily attributable to non-recurring impairment charges of \$13.4 million, related to certain of MakerBot's customer relationships intangible assets, that were recorded during the three months ended March 31, 2015, lower intangible asset amortization expenses and the favorable impact of our costs-savings initiatives, as well as lower reseller commissions.

During the three months ended March 31, 2015, we recorded a non-cash and non-tax-deductible goodwill impairment charge of \$150.4 million related to our MakerBot reporting unit. During the three months ended March 31, 2016 no goodwill impairment charge was recorded.

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

During the three months ended March 31, 2016, and 2015, the changes in fair value of obligations in connection with acquisitions resulted in a loss of \$0.7 million and a gain of \$13.3 million, respectively. The changes in fair value of obligations in connection with acquisitions were due to revaluation of the deferred consideration as part of the Solid Concepts transaction. For further information, see note 6 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

Operating Loss

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

	Three Months Ended March 31,	
	2016	2015
	U.S. \$ in thousands	
Operating loss	\$ (21,060)	\$ (220,902)
Percentage of net sales	-12.5%	-127.9%

Operating loss for the three months ended March 31, 2016 amounted to \$21.1 million compared to operating loss of \$220.9 million for the three months ended March 31, 2015. The decrease in operating loss was primarily attributable to the non-recurring, non-cash impairment charges of \$193.6 million related to MakerBot reporting unit, recorded during the three months ended March 31, 2015, and the favorable impact of our costs-savings initiatives, as well as additional factors as described above.

Financial income (expense), net

Financial income, net which is mainly comprised of foreign currencies effects and interest expense, net amounted to \$0.2 million for the three months ended March 31, 2016, compared to financial expense, net of \$5.1 million for the three months ended March 31, 2015.

Foreign currency transaction gains for the three months ended March 31, 2016 resulted from 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), were offset by revaluation of the fair value of our forward contracts that hedged the corresponding currency exposure. Financial expense, net for the three months ended March 31, 2015 were primarily due to foreign currency transaction losses that were partially offset by revaluation of the respective forward contracts.

Income Taxes

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

	Three Months Ended March 31,	
	2016	2015
	U.S. \$ in thousands	
Income taxes	\$ 2,291	\$ (9,622)
As a percent of loss before income taxes	-11.0%	4.3%

Income taxes amounted to \$2.3 million, which reflected a negative effective tax rate of 11.0% for the three months ended March 31, 2016, as compared to an effective tax rate of 4.3% for the three months ended March 31, 2015. Our effective tax rate has varied significantly due to changes in the mix of taxable income and loss between Israel and the U.S., driven by no tax benefit being recorded for our U.S. subsidiaries tax losses.

During the three months ended March 31, 2016, we provided a valuation allowance of \$11.9 million for our deferred tax assets related to our U.S. subsidiaries that are not expected to be realized in the near-term.

Our effective tax rate for the three months ended March 31, 2015 was impacted by goodwill impairment of \$150.4 million associated with the Makerbot reporting unit which was non-tax deductible. In addition, the impairment of MakerBot intangible assets resulted in a reversal of related deferred tax liabilities amounting to \$17.2 million. As a result, we 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 the near-term.

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

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

	Three Months Ended March 31,	
	2016	2015
	U.S. \$ in thousands	
Net loss attributable to Stratasys Ltd.	\$ (23,141)	\$ (216,288)
Percentage of net sales	-13.8%	-125.2%
Diluted net loss per share	\$ (0.44)	\$ (4.24)

Net loss attributable to Stratasys Ltd. for the three months ended March 31, 2016 was \$23.1 million as compared to net loss of \$216.3 million for the three months ended March 31, 2015. This decrease of the net loss attributable to Stratasys Ltd. was due to the factors that were previously discussed, primarily the impairment charges related to the non-recurring, non-cash impairment charges of \$193.6 million related to MakerBot reporting unit, recorded during the three months ended March 31, 2015, which were partially offset by the changes in revaluation of obligations in connection with acquisitions and higher income taxes.

Diluted loss per share was \$0.44 for the three months ended March 31, 2016, compared to diluted loss per share of \$4.24 for the three months ended March 31, 2015. The weighted average fully diluted share count for the three months ended March 31, 2016 was 52.1 million, compared to 51.0 million for the three months ended March 31, 2015.

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, reorganization-related charges, and (y) excluding non-cash charges such as share-based compensation, amortization of intangible assets, impairment charges of goodwill and other long-lived assets and non-recurring changes of non-cash valuation allowance on deferred tax assets 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 impairment charges, 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,					
	2016	Non-GAAP	2016	2015	Non-GAAP	2015
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	\$ 81,169	\$ 11,278	\$ 92,447	\$ 46,088	\$ 47,321	\$ 93,409
Operating income (loss) (1,2)	(21,060)	25,013	3,953	(220,902)	220,126	(776)
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(23,141)	23,737	596	(216,288)	218,312	2,024
Diluted net income (loss) per share attributable to Stratasys Ltd. (4)	\$ (0.44)	\$ 0.45	\$ 0.01	\$ (4.24)	\$ 4.28	\$ 0.04
(1) Acquired intangible assets amortization expense		10,414			14,905	
Impairment charges of other intangible assets		-			29,782	
Non-cash stock-based compensation expense		723			1,833	
Merger and acquisition and other expense		141			801	
		<u>11,278</u>			<u>47,321</u>	
(2) Acquired intangible assets amortization expense		3,760			6,456	
Goodwill impairment		-			150,400	
Non-cash stock-based compensation expense		4,900			7,927	
Impairment charges of other intangible assets		-			13,423	
Change in fair value of obligations in connection with acquisitions		727			(13,256)	
Merger and acquisition and other expense		4,348			7,855	
		<u>13,735</u>			<u>172,805</u>	
		<u>25,013</u>			<u>220,126</u>	
(3) Corresponding tax effect and other tax adjustments		(1,276)			(1,814)	
		<u>\$ 23,737</u>			<u>\$ 218,312</u>	
(4) Weighted average number of ordinary shares outstanding- Diluted	52,098		53,143	50,956		52,341

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2016	2015
	U.S \$ in thousands	
Net loss	\$ (23,171)	\$ (216,404)
Depreciation and amortization	23,496	28,907
Goodwill impairment	-	150,400
Impairment of other intangible assets	-	43,205
Deferred income taxes	(889)	(13,830)
Stock-based compensation	5,623	9,760
Change in fair value of obligations in connection with acquisitions	727	(13,256)
Foreign currency transactions loss and other non-cash items	(3,575)	8,755
Change in working capital and other items	29,373	6,367
Net cash provided by operating activities	31,584	3,904
Net cash used in investing activities	(77,606)	(11,668)
Net cash provided by (used in) financing activities	122	(9,651)
Effect of exchange rate changes on cash	1,484	(1,694)
Net change in cash and cash equivalents	(44,416)	(19,109)
Cash and cash equivalents, beginning of period	257,592	442,141
Cash and cash equivalents, end of period	\$ 213,176	\$ 423,032

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

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 was primarily due to net cash used in investing activities of \$11.7 million and net cash used in financing activities of \$9.7 million, offset by net cash provided by operating activities of \$3.9 million.

Cash flows from operating activities

We generated \$31.6 million of cash from operating activities during the three months ended March 31, 2016. The net loss of \$23.2 million was adjusted primarily due to depreciation and amortization of \$23.5 million and non-cash stock-based compensation expense of \$5.6 million and favorably affected by changes in working capital items of \$29.4 million. Changes in working capital items that favorably affected our cash flow provided by operating activities were primarily attributable to decrease in accounts receivable of \$15.6 million and an increase of \$11.7 million of our other current liabilities. The changes in working capital reflect the improvement in our proactive procedures of working capital management.

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 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, foreign currency translation loss of \$8.7 million and changes in working capital items of \$6.4 million. 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.

Cash flows from investing activities

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

Our principal property and equipment purchases were for our new facility in Rehovot, Israel which is currently under construction and other equipment purchases primarily for the enhancement of our manufacturing capabilities of our facilities in the United States, as well as certain IT investments which we conduct globally.

We used \$11.7 million of cash in our investing activities during the three months ended March 31, 2015. Cash was primarily used to property and equipment purchases of \$14.4 million and to fund our acquisitions, and was partially offset by cash provided by the change in short-term bank deposits.

Cash flows from financing activities

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

In the three months ended March 31, 2015 we used \$9.7 million of cash in our financing activities. 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.

Capital resources and capital expenditures

Our total current assets amounted to \$554.2 million as of March 31, 2016, of which \$280.2 million consisted of cash and cash equivalents and short-term bank deposits. Total current liabilities amounted to \$182.5 million. Most of our cash and cash equivalents and short-term bank deposits are 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 many of our customers, ongoing credit evaluation and account monitoring procedures.

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

As part of our business strategy, we may consider in the future and, as appropriate, make, acquisitions of other businesses, products, product rights or technologies. Our cash reserves and other liquid assets may be inadequate to consummate such acquisitions and it may be necessary for us to issue shares or raise substantial additional funds in the future to complete future transactions. In addition, as a result of our potential 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 2015 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:

- the extent of our success at introducing new or improved products and solutions that gain market share;
- the extent of growth of the 3D printing market generally;
- impairments of goodwill or other intangible assets in respect of companies that we acquire;
- changes in our overall strategy, such as related to our cost reduction/ reorganization activities and our capital expenditures;
- the extent of our success at efficiently and successfully integrating the operations of various companies that we have acquired or may acquire;
- the impact of shifts in prices or margins of the products that we sell or services we provide;
- the impact of competition and new technologies;
- global market, political and economic conditions, and in the countries in which we operate in particular;
- government regulations and approvals;
- litigation and regulatory proceedings;
- infringement of our intellectual property rights by others (including for replication and sale of consumables for use in our systems), or infringement of others’ intellectual property rights by us;
- the extent of our success at maintaining our liquidity and financing our operations and capital needs;
- impact of tax regulations on our results of operations and financial condition;
- valuation allowances that we are required to record against our deferred tax assets; 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 2015 Annual Report, as well as in the 2015 Annual Report generally.

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2015 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 2015 Annual Report.

LEGAL PROCEEDINGS

We are subject to various litigation and other legal proceedings. For a discussion of certain of these matters that we deem to be material to our company, see Note 9-“Contingencies” in the notes to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.