

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 November 2015

Commission File Number 001-35751

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**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**

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(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): \_\_\_\_\_

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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of this Form 6-K), and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.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 November 10, 2015, Stratasys Ltd., or Stratasys, released its financial results for the three and nine months ended September 30, 2015.

Attached hereto as [Exhibit 99.1](#) are the unaudited, condensed consolidated financial statements of Stratasys for the three and nine months ended September 30, 2015 (including the notes thereto) (the "[Q3 2015 Financial Statements](#)").

Attached hereto as [Exhibit 99.2](#) is Stratasys' review of its results of operations and financial condition for the three and nine months ended September 30, 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 Q3 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.

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**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: November 10, 2015

**STRATASYS LTD.**

By: /S/ Erez Simha

Name: Erez Simha

Title: Chief Financial Officer and  
Chief Operating Officer

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**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED**  
**SEPTEMBER 30, 2015**  
**(UNAUDITED)**

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**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015  
(UNAUDITED)**

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**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Consolidated Balance Sheets**

<i>In thousands</i>	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 232,219	\$ 442,141
Short-term bank deposits	30,208	595
Accounts receivable, net	130,699	150,806
Inventories	140,783	123,385
Net investment in sales-type leases	10,702	8,170
Prepaid expenses	6,895	7,931
Deferred income taxes	17,674	25,697
Other current assets	19,108	37,903
Total current assets	588,288	796,628
<b>Non-current assets</b>		
Goodwill	481,193	1,323,502
Other intangible assets, net	309,385	597,903
Property, plant and equipment, net	209,432	157,036
Net investment in sales-type leases - long-term	17,769	14,822
Deferred income taxes and other non-current assets	44,821	9,216
Total non-current assets	1,062,600	2,102,479
<b>Total assets</b>	<b>\$ 1,650,888</b>	<b>\$ 2,899,107</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 38,497	\$ 37,359
Short-term debt	-	50,000
Accrued expenses and other current liabilities	42,189	47,760
Accrued compensation and related benefits	36,130	42,332
Obligations in connection with acquisitions	5,949	28,092
Deferred revenues	49,273	45,023
Total current liabilities	172,038	250,566
<b>Non-current liabilities</b>		
Obligations in connection with acquisitions - long-term	4,784	26,461
Deferred tax liabilities	24,697	55,835
Deferred revenues - long-term	6,908	5,946
Other non-current liabilities	22,350	25,091
Total non-current liabilities	58,739	113,333
<b>Total liabilities</b>	<b>\$ 230,777</b>	<b>\$ 363,899</b>
<b>Contingencies, see note 10</b>		
<b>Redeemable non-controlling interests</b>	<b>2,472</b>	<b>3,969</b>
<b>Equity</b>		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 shares; 52,031 shares and 50,923 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	141	139
Additional paid-in capital	2,600,287	2,568,149
Accumulated deficit	(1,174,363)	(33,871)
Accumulated other comprehensive loss	(8,699)	(3,647)
Equity attributable to Stratasys Ltd.	1,417,366	2,530,770
Non-controlling interests	273	469
Total equity	1,417,639	2,531,239
<b>Total liabilities and equity</b>	<b>\$ 1,650,888</b>	<b>\$ 2,899,107</b>

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 Loss**

<i>in thousands, except per share data</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net sales</b>				
Products	\$ 118,473	\$ 160,200	\$ 379,630	\$ 443,542
Services	49,107	43,410	143,003	89,474
	167,580	203,610	522,633	533,016
<b>Cost of sales</b>				
Products	213,431	85,437	379,468	219,853
Services	34,045	30,326	94,065	55,954
	247,476	115,763	473,533	275,807
<b>Gross profit (Loss)</b>	(79,896)	87,847	49,100	257,209
<b>Operating expenses</b>				
Research and development, net	37,698	23,353	90,442	59,081
Selling, general and administrative	121,304	110,803	321,493	256,349
Goodwill impairment	695,458	-	845,858	-
Change in fair value of obligations in connection with acquisitions	(3,022)	5,578	(22,958)	(1,289)
	851,438	139,734	1,234,835	314,141
<b>Operating loss</b>	(931,334)	(51,887)	(1,185,735)	(56,932)
<b>Financial expense, net</b>	(3,505)	(1,384)	(9,340)	(2,383)
<b>Loss before income taxes</b>	(934,839)	(53,271)	(1,195,075)	(59,315)
Income taxes	(33,402)	(21,919)	(54,090)	(31,877)
<b>Net loss</b>	\$ (901,437)	\$ (31,352)	\$ (1,140,985)	\$ (27,438)
Net loss attributable to non-controlling interest	(164)	(24)	(493)	(24)
Net loss attributable to Stratasys Ltd.	\$ (901,273)	\$ (31,328)	\$ (1,140,492)	\$ (27,414)
<b>Net loss per ordinary share attributable to Stratasys Ltd.</b>				
Basic	\$ (17.35)	\$ (0.62)	\$ (22.21)	\$ (0.55)
Diluted	\$ (17.35)	\$ (0.62)	\$ (22.21)	\$ (0.55)
<b>Weighted average ordinary shares outstanding</b>				
Basic	51,941	50,490	51,437	49,717
Diluted	51,941	50,490	51,437	49,717
<b>Comprehensive loss</b>				
Net loss	\$ (901,437)	\$ (31,352)	\$ (1,140,985)	\$ (27,438)
Other comprehensive loss, net of tax:				
Losses on securities reclassified into earnings	-	-	-	167
Foreign currency translation adjustments	(796)	(1,802)	(6,216)	(2,325)
Unrealized gains (losses) on derivatives designated as cash flow hedges	(474)	(1,149)	1,164	(1,105)
Other comprehensive loss, net of tax	(1,270)	(2,951)	(5,052)	(3,263)
Comprehensive loss	(902,707)	(34,303)	(1,146,037)	(30,701)
Less: comprehensive loss attributable to non-controlling interests	(164)	(24)	(493)	(24)
<b>Comprehensive loss attributable to Stratasys Ltd.</b>	\$ (902,543)	\$ (34,279)	\$ (1,145,544)	\$ (30,677)

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>	Nine Months Ended September 30,	
	2015	2014
<b>Cash flows from operating activities</b>		
Net loss	\$ (1,140,985)	\$ (27,438)
Adjustments to reconcile net loss to net cash used in operating activities:		
Goodwill impairment	845,858	-
Impairment of other intangible assets	236,393	14,635
Depreciation and amortization	83,887	79,155
Stock-based compensation	24,160	21,411
Foreign currency transaction loss	6,892	4,953
Deferred income taxes	(61,208)	(45,188)
Change in fair value of obligations in connection with acquisitions	(22,958)	(1,289)
Other non-cash items	213	(842)
Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions:		
Accounts receivable, net	18,390	(32,972)
Inventories	(23,193)	(31,710)
Net investment in sales-type leases	(5,479)	(4,206)
Other receivables and prepaid expenses	14,617	(10,516)
Other non-current assets	(99)	813
Accounts payable	(3,755)	(615)
Other current liabilities	(6,247)	20,005
Deferred revenues	6,113	7,598
Other non-current liabilities	(2,236)	5,160
<b>Net cash used in operating activities</b>	<b>(29,637)</b>	<b>(1,046)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(75,443)	(43,799)
Proceeds from maturities of short-term bank deposits	158,176	475,988
Investment in short-term bank deposits	(182,286)	(360,029)
Cash paid for acquisitions, net of cash acquired	(9,905)	(141,706)
Purchase of investments	-	(3,267)
Acquisition of intangible assets	(2,051)	(2,803)
Proceeds from the sale of investments	-	1,634
Other investing activities	(294)	(81)
<b>Net cash used in investing activities</b>	<b>(111,803)</b>	<b>(74,063)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term debt	125,000	50,000
Repayment of short-term debt	(175,000)	-
Payments of obligations in connection with acquisitions	(18,846)	(10,795)
Proceeds from exercise of stock options	2,352	7,587
Acquisition of non-controlling interest	-	(2,170)
Excess tax benefit from stock options	-	916
<b>Net cash provided by (used in) financing activities</b>	<b>(66,494)</b>	<b>45,538</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,988)</b>	<b>(1,016)</b>
<b>Net change in cash and cash equivalents</b>	<b>(209,922)</b>	<b>(30,587)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>442,141</b>	<b>414,088</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 232,219</b>	<b>\$ 383,501</b>

**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Supplemental disclosure of cash flow information:**

<i>in thousands</i>	Nine Months Ended September 30,	
	2015	2014
Transfer of fixed assets to inventory	\$ 3,633	\$ 1,605
Transfer of inventory to fixed assets	4,090	6,079
Fair value of assets acquired, including \$509 and \$6,501 of cash acquired for the nine months ended September 30, 2015 and 2014, respectively	\$ 12,061	\$ 346,580
Less liabilities assumed	(2,156)	(17,363)
Net acquired assets	9,905	329,217
Cash paid for acquisitions	\$ 10,414	\$ 148,207
Shares and other consideration	-	181,010
	\$ 10,414	\$ 329,217

*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 3Dsolutions 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 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 and nine months ended September 30, 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 September 2015, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”), which simplifies the accounting for measurement-period adjustments. This ASU requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. This is a change from the previous requirement that the adjustments be recorded retrospectively. This ASU also requires disclosure regarding the portion of the adjustment recorded in the current period earnings, per line item, that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015. Early application is permitted and should be applied prospectively. The Company has early adopted this ASU as of September 30, 2015. The adoption did not have a material effect on the Company’s condensed consolidated financial statements.

In July 2015, FASB issued an ASU, which simplifies the guidance on the subsequent measurement of inventory. Under this ASU, inventory will be measured at the “lower of cost and net realizable value” and options that currently exist for “market value” will be eliminated. This ASU defines net realizable value as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation”. No other changes were made to the current guidance on inventory measurement. This ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted and should be applied prospectively. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2014, the FASB issued an 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, 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.

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

**Note 2. Acquisitions and Other Business Activities**

Acquisitions

*RTC Rapid Technologies Transaction*

On July 1, 2015 the Company acquired 100% of the outstanding shares of RTC Rapid Technologies GmbH (“RTC”), which is a key channel partner in Germany. This acquisition is expected to strengthen the Company’s presence in Germany, Switzerland and Austria, and enable the Company to offer full suite of Stratasys 3D printing solutions and services to the installed base of RTC.

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

*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.

*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:

	<b>U.S. \$ in thousands</b>
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>

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

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 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 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.

During July 2015, the Company issued 118,789 ordinary shares valued at \$4.1 million and paid cash of \$0.5 million to settle the first annual installment of the deferred payments. As of September 30, 2015, the total amount of the remaining deferred payments, which does not reflect a discount for lack of marketability, was approximately \$9.5 million, based on the Company's share price as of that date. The fair value of the remaining deferred payments was \$8.1 million as of September 30, 2015.

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 September 30, 2015 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 September 30, 2015 would increase the fair value of the Company's deferred payments liability by approximately \$0.2 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").

During July 2015, the Company issued 117,611 ordinary shares valued at \$4.1 million and paid cash of \$2.8 million to settle the first annual installment of the deferred retention payments.

Based on the Company's share price as of September 30, 2015, the total remaining deferred retention payments will amount to approximately \$11.1 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.

The unaudited pro forma condensed financial results have been prepared using the acquisition method of accounting and are based on the historical financial information of the Company and Solid Concepts. The unaudited pro forma condensed financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition of Solid Concepts occurred on January 1, 2013, or of future results of the combined entities. The unaudited pro forma condensed financial information does not reflect any operating efficiencies and expected realization of cost savings or synergies associated with the acquisition.

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

Unaudited supplemental pro forma combined results of operations:

	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2014</b>	<b>September 30, 2014</b>
	<b>(U.S. \$ in thousands, except per share date)</b>	
Net sales	\$ 205,356	\$ 568,274
Net loss attributable to Stratasys Ltd.	(18,203)	(15,590)
Net loss per ordinary share attributable to Stratasys Ltd.- basic and diluted	\$ (0.36)	\$ (0.31)

Adjustments for the supplemental pro forma combined results of operations are as follows:

	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2014</b>	<b>September 30, 2014</b>
	<b>(U.S. \$ in thousands)</b>	
<b>Supplemental pro forma combined results of operations:</b>		
Adjustments due to amortization of intangibles	\$ 69	\$ 2,893
Adjustments due to retention bonuses	(3,993)	5,086
Adjustments due to expenses related to business combination (deal fees and other integration expenses)	(21,362)	(26,327)
Adjustments due to financial expenses related to Solid Concept's debts	(182)	(406)
Taxes related adjustments to the supplemental pro forma	8,883	5,519
	<b>\$ (16,585)</b>	<b>\$ (13,235)</b>

Other Business Activities

In September 2015, the Company terminated its \$250 million five-year revolving credit facility under the 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 (the "Revolving Credit Facility"). In connection with the termination of the Revolving Credit Facility, the Company repaid all of its outstanding short-term debt thereunder, in an amount of approximately \$175 million. That payment was made from the Company's available cash balances. As a result of the extinguishment of its short-term debt under the Revolving Credit Facility, the Company has recorded an additional financial expense of \$2.7 million. The termination of the Company's Revolving Credit Facility was executed as part of the Company's assessment of its policies with respect to its working capital and cash management and will enable the Company to reduce its future interest expenses. The Company expects to have sufficient liquidity to fund its operations and working capital needs following the termination of the Revolving Credit Facility.

In April 2015, the Company purchased the rights to land and a new building under construction in Rehovot, Israel (the "new Rehovot Property") for total consideration of approximately \$39 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 for 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 initiated a reorganization plan that is intended to focus efforts on improving and iterating products, growing the 3D ecosystem, and expanding its presence in the professional, education and consumer markets as well as, adjusting the Company's cost structure. This reorganization initiative included, among others actions, a reduction in the number of employees, consolidation of certain facilities and closing of MakerBot's three retail stores. Through this reorganization initiative, the Company expects to achieve costs savings, improve operational efficiencies and to better position itself for market penetration

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

**Note 3. Inventories**

Inventories consisted of the following:

	September 30, 2015	December 31, 2014
	U.S. \$ in thousands	
Finished goods	\$ 89,774	\$ 66,779
Work-in-process	5,851	7,815
Raw materials	45,158	48,791
	<u>\$ 140,783</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 nine months ended September 30, 2015, were as follows:

	U.S. \$ in millions
Goodwill as of December 31, 2014	\$ 1,323.5
Goodwill impairment charges	(845.9)
Goodwill acquired	5.4
Translation differences	(1.8)
Goodwill as of September 30, 2015	<u>\$ 481.2</u>

*Goodwill Impairment*

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. During the third quarter of 2015, the Company determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for all of its reporting units existed as of September 30, 2015. These indicators included a further significant decline in the Company's market capitalization for a sustained period and weaker than expected operating results of its reporting units for the third quarter of 2015, which resulted in changes to the Company's near-term cash flows projections. The changes in the near-term cash flows projections reflect the increased uncertainty in the 3D printing environment. Accordingly, the Company performed a quantitative two-step assessment for goodwill impairment for each of its reporting units.

As part of the first step of the two-step impairment test, the Company compared the fair value of each of its reporting unit to its carrying value and determined that the carrying amount of its reporting units exceeds its fair values. The Company estimated the fair value of each of its reporting units by using an income approach based on discounted cash flows, which utilized Level 3 measures that represent unobservable inputs into the Company's valuation method. The assumptions used to estimate the fair value of the Company's reporting units were based on expected future cash flows and an estimated terminal value using a terminal year growth rate based on the growth prospects for each reporting unit. The Company used an applicable discount rate for each of its reporting units which reflected the associated specific risks for each reporting unit's future cash flows. The Company also tested the reasonableness of the estimated fair values of its reporting units by comparing the indicative valuation multiples of the reporting units to their relevant peer companies.

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As part of the second step of the two-step impairment test, the Company performed a preliminary calculation for the implied fair value of goodwill of its reporting units.

The preliminary second step of the goodwill impairment test is incomplete, due to the significant amount of work required to calculate the implied fair value of goodwill and due to the timing of the identification of the interim impairment indicators. The significant items in the step-two test that are incomplete include, but are not limited to, the valuation of certain intangible assets. The Company expects to finalize the measurement of its implied goodwill impairment charge during the fourth quarter of 2015.

*Stratasys-Objet Reporting Unit*

The Company updated its cash flow projections and related assumptions based on the indicators set forth above, for the Stratasys-Objet reporting unit and performed a preliminary two-step goodwill impairment test.

The updated Stratasys-Objet reporting unit's impairment analysis performed as part of the preliminary step two of the goodwill impairment test determined that the carrying amount of goodwill assigned to the Stratasys-Objet reporting unit exceeded its implied fair value. As a result, the Company recorded a non-tax-deductible impairment charge of \$475.6 million, in order to reduce the carrying amount of goodwill to its implied fair value.

When evaluating the fair value of Stratasys-Objet reporting unit the Company used a discounted cash flow model. Key assumptions used to determine the estimated fair value include: (a) expected cash flow for the five-year period following the testing date (including market share, sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate of 3.3% determined based on the growth prospects of the reporting unit; and (c) a discount rate of 12.0% based on management's best estimate of the after-tax weighted average cost of capital.

A decrease in the terminal year growth rate of 1% or an increase of 1% to the discount rate would reduce the fair value of Stratasys-Objet reporting unit by approximately \$104 million and \$161 million, respectively.

Based on the Company's assessment as of September 30, 2015, the remaining carrying value of the Stratasys-Objet reporting unit's goodwill was \$446 million.

*MakerBot Reporting Unit*

For the MakerBot reporting unit, for which the Company previously recorded a non-tax-deductible impairment charges of \$102.5 million and \$150.4 million in 2014 and the first quarter of 2015, respectively, the Company updated its cash flow projections and related assumptions based on the indicators set forth above and performed a preliminary two-step goodwill impairment test. The updated MakerBot reporting unit's impairment analysis performed as part of the preliminary step two of the goodwill impairment test determined that the carrying amount of goodwill assigned to the MakerBot reporting unit exceeded its implied fair value. As a result, the Company recorded an additional non-tax-deductible impairment charge of \$125.1 million, in order to reduce the carrying amount of goodwill to its implied fair value.

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Key assumptions used to determine the estimated fair value include: (a) expected future cash flows (including sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate of 3.0% 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.

*SDM Reporting Unit*

The Company updated its cash flow projections and related assumptions based on the indicators set forth above, for the SDM reporting unit and performed a preliminary two-step goodwill impairment test.

The updated SDM reporting unit's impairment analysis performed as part of the preliminary step two of the goodwill impairment test determined that the carrying amount of goodwill assigned to the SDM reporting unit exceeded its implied fair value. As a result, the Company recorded a tax-deductible impairment charge of \$70.2 million, in order to reduce the carrying amount of goodwill to its implied fair value.

When evaluating the fair value of SDM reporting unit the Company used a discounted cash flow model. Key assumptions used to determine the estimated fair value include: (a) expected cash flow for the five-year period following the testing date (including market share, sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate of 3.3% determined based on the growth prospects of the reporting unit; and (c) a discount rate of 13.0% based on management's best estimate of the after-tax weighted average cost of capital.

A decrease in the terminal year growth rate of 1% or an increase of 1% to the discount rate would reduce the fair value of SDM reporting unit by approximately \$8.2 million and \$5.4 million, respectively.

Based on the Company's assessment as of September 30, 2015, the remaining carrying value of the SDM reporting unit's goodwill was \$35 million.

*Solidscape Reporting Unit*

The Company updated its cash flow projections and related assumptions based on the indicators set forth above, for its Solidscape reporting unit and performed a preliminary two-step goodwill impairment test.

The updated Solidscape reporting unit's impairment analysis performed as part of the preliminary step two of the goodwill impairment test determined that the carrying amount of goodwill assigned to Solidscape reporting unit exceeded its implied fair value. As a result, the Company recorded a non-tax-deductible impairment charge of \$24.6 million, in order to reduce the carrying amount of goodwill to its implied fair value.

When evaluating the fair value of Solidscape reporting unit the Company used a discounted cash flow model. Key assumptions used to determine the estimated fair value include: (a) expected cash flow for the five-year period following the testing date (including market share, sales volumes and prices, costs to produce and estimated capital needs); (b) an estimated terminal value using a terminal year growth rate of 3.3% determined based on the growth prospects of the reporting unit; and (c) a discount rate of 13.5% based on management's best estimate of the after-tax weighted average cost of capital.

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, further significant decline in the Company's share price, changes in management's business strategy or downward changes of the Company's cash flows projections, warrant further interim impairment testing.

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*Other Intangible Assets*

Other intangible assets consisted of the following:

	September 30, 2015				December 31, 2014			
	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	\$ 512,502	\$ (149,041)	\$ (192,391)	\$ 171,070	\$ 512,402	\$ (109,816)	\$ (11,636)	\$ 390,950
Patents	16,783	(9,552)	-	7,231	15,209	(8,136)	-	7,073
Trademarks and trade names	60,141	(13,556)	(17,577)	29,008	60,046	(9,519)	-	50,527
Customer relationships	151,098	(38,652)	(28,072)	84,374	148,338	(26,219)	-	122,119
Non-compete agreements	10,843	(5,504)	(143)	5,196	10,843	(3,952)	-	6,891
Capitalized software development costs	18,278	(15,105)	-	3,173	17,290	(14,423)	-	2,867
In process research and development	22,179	-	(12,846)	9,333	20,476	-	(3,000)	17,476
	<u>\$ 791,824</u>	<u>\$ (231,410)</u>	<u>\$ (251,029)</u>	<u>\$ 309,385</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 intangibles 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 during the first quarter of 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 developed technology intangible assets were classified as costs of sales and impairment charges of \$13.4 million related customer relationships intangible assets were classified as selling, general and administrative expenses.

Prior to conducting the interim quantitative assessment for goodwill impairment of its reporting units as of September 30, 2015, the Company tested the recoverability of its reporting units' long-lived assets, including its purchased intangible assets. The Company concluded that the carrying amount of certain of its purchased intangible assets might not be recoverable due to certain indicators of impairment including weaker than expected operating results of its reporting units for the third quarter of 2015 and reorganization initiatives for the Company's operations.

The Company assessed the recoverability of its definite-life intangibles 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 its 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 \$183.4 million during the third quarter of 2015, in order to reduce the carrying amount of those intangible assets to their estimated fair value. Impairment charges of \$151.0 million, related to developed technology intangible assets were classified as costs of sales and impairment charges of \$32.4 million related customer relationships, trade names and non-compete agreements intangible assets were classified as selling, general and administrative expenses.

The Company assessed the recoverability of its indefinite-life intangibles assets based on their projected discounted future cash flows expected to result from each intangible asset, by using the probability-weighted cash flow approach. Based on the results of the recoverability assessment, the Company determined that the carrying value of certain of its indefinite-life intangible assets exceeds their fair values and therefore are not recoverable.

For those unrecoverable intangible assets, the Company recorded impairment charges of \$9.8 million, related to its in-process research and development projects during the third quarter of 2015, in order to reduce the carrying amount of those intangible assets to their estimated fair value. Impairment charges related to in-process research and development projects are classified as research and development 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 the associated relevant risk factor added to the discount rate.

Amortization expense relating to intangible assets for the three-month periods ended September 30, 2015 and 2014 was approximately \$18.8 million and \$21.3 million, respectively.

Amortization expense relating to intangible assets for the nine-month periods ended September 30, 2015 and 2014 was approximately \$59.3 million and \$60.2 million, respectively.

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As of September 30, 2015, the 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 3 months of 2015	15,767
2016	62,986
2017	62,420
2018	61,136
2019	48,624
Thereafter	49,119
Total	\$ 300,052

**Note 5. 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 MakerBot transaction and presumed share settlement of the Company's Deferred Payments liability and other retention settlements in connection with the acquisitions.

The following table presents the numerator and denominator of the loss per basic and diluted share computations for the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	In thousands, except per share amounts			
<b>Numerator:</b>				
Net loss attributable to Stratasys Ltd.	\$ (901,273)	\$ (31,328)	\$ (1,140,492)	\$ (27,414)
Adjustment of redeemable non-controlling interest to redemption amount	-	-	(1,800)	-
Net loss attributable to Stratasys Ltd. for basic and diluted share	(901,273)	(31,328)	(1,142,292)	(27,414)
<b>Denominator:</b>				
Weighted average shares – denominator for basic and diluted net loss per share	51,941	50,490	51,437	49,717
<b>Net loss per share attributable to Stratasys Ltd.</b>				
Basic	\$ (17.35)	\$ (0.62)	\$ (22.21)	\$ (0.55)
Diluted	\$ (17.35)	\$ (0.62)	\$ (22.21)	\$ (0.55)

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The computation of diluted net loss per share, excluded share awards of 3.88 million and 2.65 million for the three months ended September 30, 2015 and 2014, respectively, and 4.33 million and 3.36 million for the nine months ended September 30, 2015 and 2014, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share. None of the above mentioned adjustments had a dilutive effect on the diluted net loss per share.

During the second quarter of 2015 the Company issued 0.6 million ordinary shares held back in connection with the MakerBot transaction. During the third quarter of 2015 the Company issued 0.3 million ordinary shares with respect to its obligation in connection with acquisitions and other retention liabilities. These shares were included on weighted average basis for the computation of net loss per basic share for the three and nine months ended September 30, 2015.

**Note 6. Income Taxes**

The Company's effective tax rate was 3.6% and 41.1% for the three months ended September 30, 2015 and 2014, respectively, and 4.5% and 53.7% for the nine-month periods ended September 30, 2015 and 2014, 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 and nine months ended September 30, 2015, was impacted by goodwill impairment of \$695.5 million and \$845.9 million, respectively, as described in note 4, which is primarily non-tax deductible, and therefore had a significant impact on the effective tax rate for that period. In addition, the impairment of certain intangible assets and tax deductible goodwill, as described in note 4, resulted in a reversal of related deferred tax liabilities amounting to \$63.2 million and \$80.4 million for the three and nine months ended September 30, 2015, respectively. The Company also recorded a valuation allowance of \$49.4 million and \$66.6 million for the three and nine months ended September 30, 2015, respectively, against deferred tax assets 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.

During the second quarter of 2015, the Company adjusted its long-term tax rates due to a recent amendment of the New York City tax law. As a result, the Company recorded a reduction of approximately \$1.7 million in its income tax expense associated with the amortization of the intangible assets.

During the second quarter of 2015, the Company adjusted its long-term tax rates associate with taxable income in Israel, due to change in estimates. As a result, the Company recorded an increase of approximately \$3.4 million in its income tax expense associated with the amortization of the intangible assets.

Gain of \$1.9 million and \$8.7 million attributable to the change in fair value of the Company's earn-out obligations in the three and nine-month periods ended September 30, 2014, respectively, was non-taxable, and therefore had a significant impact on the effective tax rate in those periods.

**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.

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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 its consolidated balance sheets:

	September 30, 2015		
	Level 2	Level 3	Total
	U.S. \$ in thousands		
<b>Assets:</b>			
Foreign exchange forward contracts not designated as hedging instruments	\$ 480	\$ -	\$ 480
Foreign exchange forward contracts designated as hedging instruments	94	-	94
<b>Liabilities:</b>			
Foreign exchange forward contracts not designated as hedging instruments	(391)	-	(391)
Foreign exchange forward contracts designated as hedging instruments	(173)	-	(173)
Obligations in connection with acquisitions	-	(8,105)	(8,105)
	<u>\$ 10</u>	<u>\$ (8,105)</u>	<u>\$ (8,095)</u>

	December 31, 2014		
	Level 2	Level 3	Total
	U.S. \$ in thousands		
<b>Assets:</b>			
Foreign exchange forward contracts not designated as hedging instruments	\$ 3,753	\$ -	\$ 3,753
<b>Liabilities:</b>			
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>

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.

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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:

	Nine months ended	Year ended
	September 30, 2015	December 31, 2014
U.S. \$ in thousands		
Fair value at the beginning of the period	\$ 35,656	\$ 29,025
Settlements	(4,593)	(10,795)
Additions	-	43,576
Change in fair value recognized in earnings	(22,958)	(26,150)
Fair value at the end of the period	\$ 8,105	\$ 35,656

The Company's obligations in connection with acquisitions as of September 30, 2015, measured at fair value which utilized Level 3 inputs, are related to the deferred payments in connection with the Solid Concepts transaction. Change in fair value recognized in earnings in the nine months ended September 30, 2015, includes an unrealized gain of approximately \$16.8 million and a realized gain of \$6.2 million due to revaluation of the deferred payments in connection with the Solid Concepts transaction. For further information refer to note 2.

**Note 8. Derivative instruments and hedging activities:**

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

	Balance sheet location	Fair Value		Notional Amount	
		September 30,	December 31,	September 30,	December 31,
		2015	2014	2015	2014
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 480	\$ 3,753	\$ 37,993	\$ 45,000
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Accrued expenses and other current liabilities	94	-	9,518	-
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(391)	(2,901)	26,737	18,424
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	Accrued expenses and other current liabilities	(173)	(1,243)	12,500	38,426
		\$ 10	\$ (391)	\$ 86,748	\$ 101,850

As of September 30, 2015, the Company had in effect foreign exchange forward contracts, not designated as hedging instruments for the conversion of \$48.8 million, \$8.9 million and \$7.0 million into Euro, New Israeli Shekel and Japanese Yen, respectively. These derivatives are primarily used to reduce the impact of foreign currency fluctuations on certain balance sheet exposures. With respect to such derivatives, loss of \$0.2 million and gain of \$4.6 million were recognized under financial expense, net for the three-month periods ended September 30, 2015 and 2014, respectively, and gains of \$3.4 million and \$4.7 million were recognized under financial expense, net for the nine-month periods ended September 30, 2015 and 2014, respectively. Such gains partially offset the revaluation losses of the balance sheet items, which are also recorded under financial expense, net.

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As of September 30, 2015, the Company had foreign exchange forward contracts in effect for the conversion of \$22.0 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 are included in the Company's accumulated other comprehensive loss. These contracts mature through June 30, 2016.

**Note 9. Equity**

**a. Stock-based compensation plans**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	U.S. \$ in thousands			
Cost of sales	\$ 739	\$ 1,282	\$ 4,369	\$ 3,228
Research and development, net	985	1,098	4,359	2,921
Selling, general and administrative	3,112	5,217	15,432	15,262
Total stock-based compensation expenses	<u>\$ 4,836</u>	<u>\$ 7,597</u>	<u>\$ 24,160</u>	<u>\$ 21,411</u>

A summary of the Company's stock option activity for the nine months ended September 30, 2015 is as follows:

	Number of Options	Weighted Average
		Exercise Price
Options outstanding as of January 1, 2015	1,719,241	\$ 43.89
Granted	736,474	35.58
Exercised	(125,193)	18.79
Forfeited	(69,192)	72.20
Options outstanding as of September 30, 2015	<u>2,261,330</u>	<u>\$ 41.71</u>
Options exercisable as of September 30, 2015	<u>1,039,934</u>	<u>\$ 31.00</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 nine-month period ended September 30, 2015 was \$16.30 per option.

During the nine-month periods ended September 30, 2015 and 2014, the Company issued 125,193 and 532,547 shares, respectively, upon the exercise of stock options. These stock options exercises resulted in an increase in the Company's shareholders' equity of \$2.4 million and \$7.6 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, the unrecognized compensation cost related to all unvested stock options of \$30.0 million is expected to be recognized as an expense over a weighted-average period of 2.6 years.

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A summary of the Company's RSUs activity for the nine months ended September 30, 2015 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested RSUs outstanding as of January 1, 2015	667,498	\$ 94.19
Granted	158,861	48.13
Forfeited	(123,858)	92.11
Vested	(84,818)	97.37
Unvested RSUs outstanding as of September 30, 2015	617,683	\$ 83.95

During the nine-month periods ended September 30, 2015 and 2014, the Company granted RSUs for 158,861 and 115,129 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 September 30, 2015, the unrecognized compensation cost related to all unvested equity classified RSUs of \$37.1 million is expected to be recognized as expense on a straight-line basis over a weighted-average period of 2.9 years.

**b. Accumulated other comprehensive loss**

The following table presents the changes in the components of accumulated other comprehensive loss, net of taxes for the nine months ended September 30, 2015 and 2014:

	Nine months ended September 30, 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	(411)	(6,216)	(6,627)
Amounts reclassified from accumulated other comprehensive loss	1,575	-	1,575
Other comprehensive income (loss)	1,164	(6,216)	(5,052)
Balance as of September 30, 2015	\$ (79)	\$ (8,620)	\$ (8,699)

	Nine months ended September 30, 2014			
	Net unrealized gain (loss) on cash flow hedges	Foreign currency translation adjustments	Other	Total
	U.S. \$ in thousands			
Balance as of January 1, 2014	\$ 153	\$ 1,922	\$ (167)	\$ 1,908
Other comprehensive loss before reclassifications	(1,037)	(2,325)	-	(3,362)
Amounts reclassified from accumulated other comprehensive income (loss)	(68)	-	167	99
Other comprehensive income (loss)	(1,105)	(2,325)	167	(3,263)
Balance as of September 30, 2014	\$ (952)	\$ (403)	\$ -	\$ (1,355)

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Amounts reclassified from accumulated other comprehensive loss to earnings were \$0.3 million and \$1.6 million for the three and nine months ended September 30, 2015.

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

**Note 10. Contingencies**

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.

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 lawsuits 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. On June 10, 2015, the court rendered its decision, rejecting the motion for dismissal of the lawsuits on grounds of statute of limitations and laches. This ruling only addressed the preliminary motion to dismiss the lawsuits, without hearing the case to its merits. On July 9, 2015, the Company and the other defendants filed a motion for leave to appeal to the Israeli Supreme Court with respect to the court's decision on the preliminary motion. Despite its decision on the preliminary motion, the court dismissed the lawsuit of one of the former directors due to lack of cause. A pre-trial hearing is scheduled for February 18, 2016.

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. On July 1, 2015, lead plaintiffs filed their Consolidated Complaint. On August 31, 2015, Defendants moved to dismiss the Consolidated Complaint for failure to state a claim. 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, 2014, or our 2014 Annual Report.*

### Overview of Business

We are a 3D solutions company offering 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 our 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 acquisition of MakerBot, we have added an online sales channel. We have more than 2,900 employees and hold more than 800 granted or pending patents worldwide.

### Recent developments

#### *Goodwill and Other Intangible Assets Impairment Charges*

During the third quarter of 2015, we determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for all of our reporting units existed as of September 30, 2015. These indicators included a further significant decline in our market capitalization for a sustained period and weaker than expected operating results of our reporting units for the third quarter of 2015, which resulted in changes to our near-term cash flows projections. The changes in our near-term cash flows projections reflect, among other things, the increased uncertainty in the 3D printing environment. Accordingly, we performed a quantitative two-step assessment for goodwill impairment for each of our reporting units. As part of the two-step impairment test, we performed a preliminary calculation for the implied fair value of goodwill of our reporting units and determined that the carrying amount of goodwill assigned to certain of our reporting units exceeded its fair value. As a result, we recorded a non-cash impairment charge of \$695.5 million, in order to reduce the carrying amount of goodwill to its estimated fair value. The preliminary goodwill impairment assessment is incomplete. We expect to finalize the measurement of the implied goodwill impairment charge during the fourth quarter of 2015.

In addition, we tested the recoverability of our long-lived assets, including our purchased intangible assets. We concluded that the carrying amount of certain of our purchased intangible assets might not be recoverable. As a result, we recorded a non-cash impairment charge of \$193.2 million, in order to reduce the carrying amount of our purchased intangible assets to their estimated fair value.

#### *RTC Rapid Technologies Transaction*

On July 1, 2015 we acquired 100% of the outstanding shares of RTC Rapid Technologies GmbH ("RTC"), which has been a key channel partner in Germany. This acquisition is expected to strengthen our presence in Germany, Switzerland and Austria, and will enable us to offer the full suite of Stratasys 3D printing solutions and services to the installed base of RTC as well as work with its regional resellers to further capitalize on growth opportunities in selected verticals in the region.

#### *Reorganization Plan*

In April 2015, we initiated a reorganization plan that is intended to focus efforts on improving and iterating products, growing the 3D ecosystem, and expanding our presence in the professional, education and consumer markets as well as adjusting our cost structure. This reorganization initiative included, among others actions, reducing the number of employees, consolidation of certain facilities and closing of MakerBot's three retail stores. Through this reorganization, we expect to achieve cost savings, improve operational efficiencies and to better position our company for market penetration.

#### *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.

On January 1, 2015, we formed Stratasys Direct Manufacturing, or SDM, a paid-parts service from our three AM service companies – Solid Concepts and Harvest Technologies (“Harvest”) which we acquired during the third quarter of 2014 and our RedEye service. 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.

We believe that the acquisitions of Solid Concepts and Harvest, combined with our RedEyeService, created a leading strategic platform to meet a broad range of customers’ additive manufacturing needs and provide us with opportunities to leverage our direct manufacturing services capabilities. These acquisitions have also enabled us to enhance our expertise in parts production, as well as materials and systems knowhow. We believe that the integration of the three companies 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.

### 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 and nine months ended September 30, 2015 with the corresponding periods in 2014.

### Results of Operations

#### Comparison of Three Months Ended September 30, 2015 to Three Months Ended September 30, 2014

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

	Three Months Ended September 30,			
	2015		2014	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 167,580	100.0%	\$ 203,610	100.0%
Cost of sales	247,476	147.7%	115,763	56.9%
Gross profit (loss)	(79,896)	-47.7%	87,847	43.1%
Research and development, net	37,698	22.5%	23,353	11.5%
Selling, general and administrative	121,304	72.4%	110,803	54.4%
Goodwill impairment	695,458	415.0%	-	0.0%
Change in fair value of obligations in connection with acquisitions	(3,022)	-1.8%	5,578	2.7%
Operating loss	(931,334)	-555.8%	(51,887)	-25.5%
Financial expense, net	(3,505)	-2.1%	(1,384)	-0.7%
Loss before income taxes	(934,839)	-557.9%	(53,271)	-26.2%
Income taxes	(33,402)	-19.9%	(21,919)	-10.8%
Net loss attributable to Stratasys Ltd.	(901,273)	-537.8%	(31,328)	-15.4%

## 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 September 30,		
	2015	2014	% Change
	U.S. \$ in thousands		
Products	\$ 118,473	\$ 160,200	-26.0%
Services	49,107	43,410	13.1%
	\$ 167,580	\$ 203,610	-17.7%

Our revenues for the three months ended September 30, 2015 were lower than expected across all regions and most product and service lines. We believe that the current slowdown is primarily due to a continuation of the challenging additive manufacturing environment, driven primarily by weak investment in capital equipment by customers within key verticals.

Net sales in the three months ended September 30, 2015 were \$167.6 million as compared to net sales of \$203.6 million in the three months ended September 30, 2014, representing a decrease of 17.7%. Net sales decreased by approximately 14.5% on a constant currency basis when compared to the same period last year.

#### Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) decreased by \$41.7 million, or 26.0% for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014.

The decrease in products sales of 26.0% was driven by a decrease in MakerBot revenues, overall market weakness and a negative impact from foreign currency exchange fluctuations, which were partially offset by our sale of consumables offerings which were flat as compared to the three months ended September 30, 2014.

The number of systems shipped in the three months ended September 30, 2015 decreased to 5,467 units as compared to 10,965 units shipped in the three months ended September 30, 2014. 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 September 30, 2015 were flat as compared to the three months ended September 30, 2014. Despite overall market weakness, consumables net sales were flat primarily due to the favorable effect of our growing installed base of systems and high performance consumable materials offerings for use in new applications, offset by the unfavorable impact of foreign currency exchange fluctuations and softness in customer usage for certain applications.

#### Services Revenues

Services revenues (including SDM, maintenance and other services) increased by \$5.7 million for the three months ended September 30, 2015, or 13.1%, as compared to the three months ended September 30, 2014. The increase in services revenues was primarily attributable to the inclusion for the full period of SDM revenues which were primarily generated by companies that were acquired during the third quarter of 2014. Services 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 September 30,				
	2015		2014		% Change
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales	
North America	\$ 102,767	61.3%	\$ 116,405	57.2%	-11.7%
EMEA	34,501	20.6%	44,646	21.9%	-22.7%
Asia Pacific	26,388	15.8%	39,754	19.5%	-33.6%
Other	3,924	2.3%	2,805	1.4%	39.9%
	<u>\$ 167,580</u>	<u>100.0%</u>	<u>\$ 203,610</u>	<u>100.0%</u>	<u>-17.7%</u>

Net sales in the North America region decreased for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, due to lower net sales of our systems, partially offset by an increase in services revenues, due to the inclusion for the full period of SDM revenues.

Net sales in the EMEA region decreased for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, primarily due to lower sales of our systems. In local currencies terms, net sales for the three months ended September 30, 2015 in the EMEA region decreased by 11.1% as compared to the three months ended September 30, 2014. Net sales in the EMEA region were negatively impacted by approximately \$5.2 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.

Net sales in the Asia Pacific region decreased by \$13.4 million, or, 33.6%, for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, due to lower net sales of our systems, while consumables and services revenues remained flat.

## Gross Profit (Loss)

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

	Three Months Ended September 30,		
	2015	2014	% Change
	U.S. \$ in thousands		
<b>Gross profit (loss) attributable to:</b>			
Products	\$ (94,958)	\$ 74,763	-227.0%
Services	15,062	13,084	15.1%
	<u>\$ (79,896)</u>	<u>\$ 87,847</u>	<u>-190.9%</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 September 30,		
	2015	2014	% Change
<b>Gross profit as a percentage of revenues from:</b>			
Products	-80.2%	46.7%	-271.7%
Services	30.7%	30.1%	1.8%
Total gross profit	<u>-47.7%</u>	<u>43.1%</u>	<u>-210.6%</u>

Gross profit attributable to products revenues decreased by 169.7 million, or 227.0%, to gross loss of \$95.0 million for the three months ended September 30, 2015 as compared to gross profit of \$74.8 million for the three months ended September 30, 2014. Gross loss attributable to products revenues as a percentage of products revenues decreased to 80.2% for the three months ended September 30, 2015 as compared to gross profit of 46.7% for the three months ended September 30, 2014.

The decrease in gross profit attributable to products sales for the three months ended September 30, 2015, was primarily due to impairment charges of \$151.0 million related to certain of our developed technology intangible assets, as compared to \$11.6 million for the three months ended September 30, 2014. The decrease in gross profit was also attributable to changes in product mix that favored our relatively lower-margin systems as well as a decreased in our higher-margin Connex system revenues.

Gross profit attributable to services revenues increased by \$2.0 million, or 15.1%, to \$15.1 million for the three months ended September 30, 2015 as compared to \$13.1 million for the three months ended September 30, 2014. Gross profit attributable to services revenues as a percentage of services revenues increased to 30.7% in the three months ended September 30, 2015, as compared to 30.1% for the three months ended September 30, 2014. The increase in gross profit from services revenues primarily reflects the inclusion for the full period of SDM operations which primarily relates to companies that were acquired during the third quarter of 2014.

## 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 September 30,		
	2015	2014	% Change
U.S. \$ in thousands			
Research and development, net	\$ 37,698	\$ 23,353	61.4%
Selling, general and administrative	121,304	110,803	9.5%
Goodwill impairment	695,458	-	N/A
Change in fair value of obligations in connection with acquisitions	(3,022)	5,578	-154.2%
	<u>\$ 851,438</u>	<u>\$ 139,734</u>	<u>509.3%</u>
Percentage of net sales	508.1%	68.6%	

Research and development expenses, net for the three months ended September 30, 2015 increased by 14.3 million, or 61.4%, as compared to the three months ended September 30, 2014. The increase was primarily due to impairment charges of \$9.8 million related to certain of our in-process research and development projects for the three months ended September 30, 2015 as compared to \$3.0 million for the three months ended September 30, 2014. Additional increase in research and development expenses was due to the inclusion of GrabCad operations for the full period, following the acquisition of GrabCAD in September 2014, which added \$3.2 million and an increase in headcount to support new research and development initiatives. The headcount increase 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 22.5% in the three months ended September 30, 2015 as compared to 11.5% in the three months ended September 30, 2014. This increase reflects our intention to continue to invest in research and development in order to bring a broad range of hardware, materials and 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 September 30, 2015 amounted to \$121.3 million, compared to \$110.8 million for the three months ended September 30, 2014. Selling, general and administrative expenses for the three months ended September 30, 2015 as percentage of net sales were 72.4% as compared to 54.4% for the three months ended September 30, 2014.

The increase of our selling, general and administrative expenses was primarily attributable to intangible assets impairment charges of \$32.2 million, the inclusion for the full period of SDM operations which primarily relates to companies that were acquired during the third quarter of 2014 and other charges associated with our strategic and marketing initiatives, including branding and IT related costs. This increase was partially offset by a reduction of \$21.2 million in merger, retention and other integration expenses, related to the acquisition of Solid Concepts and Harvest.

Goodwill impairment charge for the three months ended September 30, 2015 amounted to \$695.5 million. During the third quarter of 2015, we determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for all of our reporting units existed as of September 30, 2015. These indicators resulted in changes to our near-term cash flows projections, which reflect, among other things, the increased uncertainty in the 3D printing environment. Accordingly, we performed a quantitative two-step assessment for goodwill impairment for each of our reporting units. As part of the two-step impairment test, we performed a preliminary calculation for the implied fair value of goodwill of our reporting units and determined that the carrying amount of goodwill assigned to certain of our reporting units exceeded its fair value. As a result, we recorded a non-cash impairment charge of \$695.5 million, in order to reduce the carrying amount of goodwill to its estimated fair value. The preliminary goodwill impairment assessment is incomplete. We expect to finalize the measurement of the implied goodwill impairment charge during the fourth quarter of 2015.

During the three months ended September 30, 2015, we recorded a gain of \$3.0 million, compared to a loss of \$5.6 million for the three months ended September 30, 2014, due to the revaluation of obligations in connection with acquisitions. The gain recorded during the three months ended September 30, 2015 was due to the downward revaluation of the deferred payments liability in connection with the Solid Concepts transaction. The loss recorded during the three months ended September 30, 2014 was due to upward revaluation of the deferred payments liability in connection with the Solid Concepts transaction, which was partially offset by the downward revaluation of the earn-out payment liability in connection with the MakerBot transaction.

### Operating Loss

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

	Three Months Ended September 30,	
	2015	2014
	U.S. \$ in thousands	
Operating loss	\$ (931,344)	\$ (51,887)
Percentage of net sales	-555.8%	-25.5%

Operating loss for the three months ended September 30, 2015 amounted to \$931.3 million compared to operating loss of \$51.9 million for the three months ended September 30, 2014. The increase in operating loss was primarily attributable to non-cash impairment charges of goodwill and other intangible assets and the decrease in net sales.

### Financial Expense, net

Financial expense, net amounted to \$3.5 million for the three months ended September 30, 2015, compared to financial expense, net of \$1.4 million for the three months ended September 30, 2014. The increase in financial expense, net was primarily due to costs related to the termination of our revolving credit facility during September 2015 in an amount of \$2.7 million.

### 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
	September 30,		
	2015	2014	
	U.S. \$ in thousands		
Income taxes	\$ (33,402)	\$ (21,919)	52.4%
As a percent of loss before income taxes	3.6%	41.1%	

Our effective tax rate for the three months ended September 30, 2015 and 2014 was 3.6% and 41.1%, 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 September 30, 2015, was impacted by goodwill impairment of \$695.5 million, as described in note 4, which is primarily non-tax deductible, and therefore had a significant impact on the effective tax rate for that period. In addition, the impairment of certain intangible assets and tax deductible goodwill, as described in note 4, resulted in a reversal of related deferred tax liabilities amounting to \$63.2 million for the three months ended September 30, 2015. We also recorded a valuation allowance of \$49.4 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. We will continue to monitor whether the realization of our remaining deferred tax assets is more likely than not.

**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:

	<b>Three Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>U.S. \$ in thousands</b>	
Net loss attributable to Stratasys Ltd.	\$ (901,273)	\$ (31,328)
Percentage of net sales	-537.8%	-15.4%
Net loss per diluted share	\$ (17.35)	\$ (0.62)

Net loss attributable to Stratasys Ltd. for the three months ended September 30, 2015 was \$901.3 million as compared to net loss of \$31.3 million for the three months ended September 30, 2014. This increase of the net loss attributable to Stratasys Ltd. was due to the factors that were previously discussed, primarily the increase of operating loss attributable to non-cash goodwill and other intangible assets impairment charges as described above.

Net loss per diluted share was \$17.35 for the three months ended September 30, 2015, compared to net loss per diluted share of \$0.62 for the three months ended September 30, 2014. The weighted average share count for the three months ended September 30, 2015 was 51.9 million, compared to 50.5 million for the three months ended September 30, 2014.

## Comparison of Nine Months Ended September 30, 2015 to Nine Months Ended September 30, 2014

### General

In general, the factors mentioned above that explain quarterly changes on a year-over-year basis are also relevant to a comparison of the results for the nine months ended September 30, 2015 and 2014. Additional factors affecting the nine months comparison are described below.

The following table presents certain financial data as a percentage of net sales for the periods indicated:

	Nine Months Ended September 30,			
	2015		2014	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 522,633	100.0%	\$ 533,016	100.0%
Cost of sales	473,533	90.6%	275,807	51.7%
Gross profit	49,100	9.4%	257,209	48.3%
Research and development, net	90,442	17.3%	59,081	11.1%
Selling, general and administrative	321,493	61.5%	256,349	48.1%
Goodwill impairment	845,858	161.8%	-	0.0%
Change in fair value of obligations in connection with acquisitions	(22,958)	-4.4%	(1,289)	-0.2%
Operating loss	(1,185,735)	226.9%	(56,932)	-10.7%
Financial expense, net	(9,340)	-1.8%	(2,383)	-0.4%
Loss before income taxes	(1,195,075)	-228.7%	(59,315)	-11.1%
Income taxes	(54,090)	-10.3%	(31,877)	-6.0%
Net loss attributable to Strataysys Ltd.	(1,140,492)	-218.2%	(27,414)	-5.1%

### Discussion of Results of Operations

#### Net Sales

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

	Nine Months Ended September 30,		
	2015	2014	% Change
	U.S. \$ in thousands		
Products	\$ 379,630	\$ 443,542	-14.4%
Services	143,003	89,474	59.8%
	\$ 522,633	\$ 533,016	-1.9%

#### Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) decreased by \$63.9 million, or 14.4%, for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. Products revenues decreased by approximately 10.0% on a constant currency basis when compared to the same period last year.

The number of systems shipped in the nine months ended September 30, 2015 decreased to 19,734 units as compared to 34,629 units shipped in the nine months ended September 30, 2014. The decrease in the number of systems shipped was primarily due to a decrease in MakerBot unit sales.

Consumables revenues for the nine months ended September 30, 2015 increased by 7.4% as compared to the nine months ended September 30, 2014. The increase was primarily due to our growing installed base of systems.

### Services Revenues

Services revenues (including SDM, maintenance and other services) increased by \$53.5 million, or 59.8%, for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014. The increase in services revenues was primarily attributable to the inclusion for the full period of SDM revenues, which primarily relates to acquisitions completed during the third quarter of 2014. Services 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:

	Nine Months Ended September 30,				% Change
	2015		2014		
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales	
North America	\$ 311,344	59.6%	\$ 286,237	53.7%	8.8%
EMEA	108,717	20.8%	129,389	24.3%	-16.0%
Asia Pacific	93,282	17.8%	110,078	20.6%	-15.3%
Other	9,290	1.8%	7,312	1.4%	27.1%
	<u>\$ 522,633</u>	<u>100.0%</u>	<u>\$ 533,016</u>	<u>100.0%</u>	<u>-1.9%</u>

Net sales in the North America region for the nine months ended September 30, 2015 increased by \$25.1 million as compared to the nine months ended September 30, 2014, due to growth in consumables sales, as well as the inclusion of SDM net sales in the North America region for the entire nine months period ended September 30, 2015.

Net sales in the EMEA region for the nine months ended September 30, 2015 decreased by \$20.7 million as compared to the nine months ended September 30, 2014. In local currencies terms, net sales for the nine months ended September 30, 2015 in the EMEA region remained flat as compared to the nine months ended September 30, 2014. Net sales in the EMEA region were negatively impacted by approximately \$20.2 million, primarily due to the devaluation of the Euro against the U.S. dollar, when net sales are translated on a constant currency basis.

Net sales in the Asia Pacific region for the nine months ended September 30, 2015 decreased by \$16.8 million, or 15.3% as compared to the nine months ended September 30, 2014, primarily due to lower net sales of our systems, partially offset by growth in consumables sales.

### Gross Profit

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

	Nine Months Ended September 30,		
	2015	2014	% Change
	U.S. \$ in thousands		
<b>Gross profit attributable to:</b>			
Products	\$ 162	\$ 223,689	-99.9%
Services	48,938	33,520	46.0%
	<u>\$ 49,100</u>	<u>\$ 257,209</u>	<u>-%</u>

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

	Nine Months Ended September 30,		
	2015	2014	% Change
<b>Gross profit as a percentage of revenues from:</b>			
Products	0.0%	50.4%	-99.9%
Services	34.2%	37.5%	-8.7%
Total gross profit	9.4%	48.3%	-80.5%

Gross profit attributable to products revenues decreased by \$223.5 million, or 99.9%, to \$0.2 million for the nine months ended September 30, 2015 as compared to \$223.7 million for the nine months ended September 30, 2014. Gross profit attributable to products revenues as a percentage of revenue decreased to 0.0% for the nine months ended September 30, 2015 as compared to 50.4% for the nine months ended September 30, 2014.

The decrease in gross profit attributable to products revenues was primarily due to impairment charges of \$180.8 million related to certain of our developed technology intangible assets and due to changes in product mix which was mainly due to sales that favored our lower-margin systems as well as certain reorganization and other related charges.

Gross profit attributable to services revenues increased by \$15.4 million, or 46.0%, to \$48.9 million for the nine months ended September 30, 2015 as compared to \$33.5 million for the nine months ended September 30, 2014. Gross profit attributable to services revenues as a percentage of services revenues in the nine months ended September 30, 2015 decreased to 34.2%, as compared to 37.5% for the nine months ended September 30, 2014. The changes in gross profit from services revenues primarily reflects the inclusion for the full period in the nine months ended September 30, 2015 of SDM operations, which primarily relates to acquisitions completed during the third quarter of 2014.

### 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:

	Nine Months Ended September 30,		
	2015	2014	% Change
U.S. \$ in thousands			
Research and development, net	\$ 90,442	\$ 59,081	53.1%
Selling, general and administrative	321,493	256,349	25.4%
Goodwill impairment	845,858	-	N/A
Change in fair value of obligations in connection with acquisitions	(22,958)	(1,289)	1,681.1%
	\$ 1,234,835	\$ 314,141	293.1%
Percentage of net sales	236.3%	58.9%	

Research and development expenses, net for the nine months ended September 30, 2015 increased by \$31.4 million, or 53.1%, as compared to the nine months ended September 30, 2014. The increase was primarily due to impairment charges of \$9.8 million related to certain of our in-process research and development projects for the nine months ended September 30, 2015 as compared to \$3.0 million for the nine months ended September 30, 2014, and the inclusion of GrabCad operations for the full period, following the acquisition of GrabCad's in September, 2014, which added \$8.5 million as well as, an increase in headcount to support new research and development initiatives.

Research and development expense, net as a percentage of sales increased to 17.3% in the nine months ended September 30, 2015 as compared to 11.1% in the nine months ended September 30, 2014. This increase reflects our intention to continue to invest in research and development in order to bring a broad range of hardware, materials and software solutions to create a leading 3D printing ecosystem.

Selling, general and administrative expenses for the nine months ended September 30, 2015 amounted to \$21.5 million, compared to \$256.3 million for the nine months ended September 30, 2014. Selling, general and administrative expenses for the nine months ended September 30, 2015 as a percentage of net sales were 61.5% as compared to 48.1% for the nine months ended September 30, 2014.

The increase of our selling, general and administrative expenses was primarily attributed to impairment charges related to intangible assets of \$45.8 million, the inclusion of SDM operations which primarily relates to acquisitions completed during the third quarter of 2014, certain reorganization and other related charges as well as strategic and marketing initiatives, including branding and IT related costs. The increase of our selling, general and administrative expenses was partially offset by non-recurring merger and integration costs related to the Solid Concepts transaction that were expensed during the third quarter of 2014.

Goodwill impairment charge for the nine months ended September 30, 2015 amounted to \$845.9 million. During the first quarter of 2015, we recorded a goodwill impairment charge of \$150.4 million related to our MakerBot reporting unit. During the third quarter we recorded an additional goodwill impairment charge of \$695.5 million related to all of our reporting units. For further information, see above under "Recent Developments - Goodwill and Other Intangibles Impairment Charges" and note 4 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

During the nine months ended September 30, 2015, we recorded a gain of \$23.0 million, compared to gain of \$1.3 million for the nine months ended September 30, 2014, due to the revaluation of obligations in connection with acquisitions. The gain recorded during the nine months ended September 30, 2015 was due to the downward revaluation of the deferred payments liability in connection with the Solid Concepts transaction. The gain for the nine months ended September 30, 2014 was due to the downward revaluation of the earn-out payment liability in connection with the MakerBot transaction and was partially offset by the upward revaluation of the deferred payments liability in connection with the Solid Concepts transaction.

### Operating Loss

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

	Nine Months Ended September 30,	
	2015	2014
	U.S. \$ in thousands	
Operating loss	\$ (1,185,735)	\$ (56,932)
Percentage of net sales	-226.9%	-10.7%

Operating loss for the nine months ended September 30, 2015 amounted to \$1,185.7 million compared to operating loss of \$56.9 million for the nine months ended September 30, 2014. The operating loss for the nine months ended September 30, 2015, was primarily attributable to non-cash impairment charges related to our goodwill and certain of our other intangible assets of \$1,082.3 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, amounted to \$9.3 million for the nine months ended September 30, 2015, compared to financial expense, net of \$2.4 million for the nine months ended September 30, 2014. The increase was primarily due to foreign currency transaction losses due to changes in rates 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. Additional increase in our financial expenses, net was associated with costs related to the termination of our revolving credit facility during September 2015. The increase in financial expense, net, was 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:

	Nine Months Ended		% Change
	September 30,		
	2015	2014	
Income taxes	\$ (54,090)	\$ (31,877)	69.7%
As a percent of loss before income taxes	4.5%	53.7%	

Our effective tax rate for the nine months ended September 30, 2015 and 2014 was 4.5% and 53.7%, 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 nine months ended September 30, 2015, was impacted by goodwill impairment of \$845.9 million, as described in note 4, which was primarily non-tax deductible, and therefore had a significant impact on the effective tax rate for that period. In addition, the impairment of certain intangible assets and tax deductible goodwill, as described in note 4, resulted in a reversal of related deferred tax liabilities amounting to \$80.4 million for the nine months ended September 30, 2015, respectively. We also recorded a valuation allowance of \$66.6 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. We will continue to monitor whether the realization of its remaining deferred tax assets is more likely than not.

During the second quarter of 2015, we adjusted our long-term tax rates due to a recent amendment of the New York City tax law. As a result, we recorded a reduction of approximately \$1.7 million in our income tax expense associated with the amortization of the intangible assets.

During the second quarter of 2015, we adjusted its long-term tax rates associate with taxable income in Israel, due to change in estimates. As a result, we recorded an increase of approximately \$3.4 million in its income tax expense associated with the amortization of the intangible assets.

The gain of \$8.7 million for the nine months ended September 30, 2014, attributable to the change in fair value of four earn-out obligations in connection with the MakerBot transaction was non-taxable, and therefore had a significant impact on the effective tax rate in this period.

## 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:

	Nine Months Ended September 30,	
	2015	2014
	U.S. \$ in thousands	
Net loss attributable to Stratasys Ltd.	\$ (1,140,492)	\$ (27,414)
Percentage of net sales	-218.2%	-5.1%
Net loss per diluted share	\$ (22.21)	\$ (0.55)

Net loss attributable to Stratasys Ltd. for the nine months ended September 30, 2015 was \$1,140.5 million as compared to net loss of \$27.4 million for the nine months ended September 30, 2014. The net loss attributable to Stratasys Ltd. for the nine months ended September 30, 2015, was due to the factors that were previously discussed, primarily the impairment charges related to our goodwill and certain of our intangible assets, which were partially offset by gain due to revaluation of obligations in connection with acquisitions.

Net loss per diluted share was \$22.21 for the nine months ended September 30, 2015, compared to net loss per share of \$0.55 for the nine months ended September 30, 2014. In computing our loss per share for the nine months ended September 30, 2015, we adjusted the net loss attributable to Stratasys Ltd. by \$1.8 million due to excess redemption amount of redeemable non-controlling interest. The weighted average share count for the nine months ended September 30, 2015 was 51.4 million, compared to 49.7 million for the nine months ended September 30, 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 reorganization-related charges, 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 September 30,					
	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 (loss) (1)	\$ (79,896)	\$ 165,099	\$ 85,203	\$ 87,847	\$ 30,996	\$ 118,843
Operating income (loss) (1,2)	(931,334)	921,351	(9,983)	(51,887)	83,688	31,801
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(901,273)	901,937	664	(31,328)	61,419	30,091
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (17.35)	\$ 17.36	\$ 0.01	\$ (0.62)	\$ 1.20	\$ 0.58
(1) Acquired intangible assets amortization expense		12,317			14,864	
Impairment charges of other intangible assets		150,973			11,635	
Non-cash stock-based compensation expense		739			1,282	
Reorganization and other related costs		914			-	
Merger and acquisition related expense		156			3,215	
		<u>165,099</u>			<u>30,996</u>	
(2) Goodwill impairment		695,458			-	
Acquired intangible assets amortization expense		5,832			6,474	
Non-cash stock-based compensation expense		4,097			6,315	
Impairment charges of other intangible assets		42,215			3,000	
Change in fair value of obligations in connection with acquisitions		(3,022)			5,578	
Reorganization and other related costs		834			-	
Merger and acquisition related expense		10,838			31,325	
		<u>756,252</u>			<u>52,692</u>	
		<u>921,351</u>			<u>83,688</u>	
(3) Credit facility termination related costs		2,705			-	
Corresponding tax effect and other tax adjustments		(22,119)			(22,269)	
		<u>\$ 901,937</u>			<u>\$ 61,419</u>	
(4) Weighted average number of ordinary shares outstanding- Diluted	51,941		53,108	50,490		52,261

	Nine Months Ended September 30,					
	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)	\$ 49,100	\$ 229,236	\$ 278,336	\$ 257,209	\$ 60,473	\$ 317,682
Operating income (loss) (1,2)	(1,185,735)	1,178,650	(7,085)	(56,932)	140,251	83,319
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(1,140,492)	1,151,142	10,650	(27,414)	106,098	78,684
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (22.21)	\$ 22.41	\$ 0.20	\$ (0.55)	\$ 2.08	\$ 1.53
(1) Impairment of other intangible assets		180,755			11,635	
Acquired intangible assets amortization expense		39,523			42,354	
Non-cash stock-based compensation expense		4,369			3,228	
Reorganization and other related costs		3,426			-	
Merger and acquisition related expense		1,163			3,256	
		<u>229,236</u>			<u>60,473</u>	
(2) Goodwill impairment		845,858			-	
Impairment of other intangible assets		55,638			3,000	
Acquired intangible assets amortization expense		17,972			17,344	
Non-cash stock-based compensation expense		19,791			18,183	
Change in fair value of obligations in connection with acquisitions		(22,958)			(1,289)	
Reorganization and other related costs		7,590			-	
Merger and acquisition related expense		25,523			42,540	
		<u>949,414</u>			<u>79,778</u>	
		<u>1,178,650</u>			<u>140,251</u>	
(3) Credit facility termination related costs		2,705			-	
Corresponding tax effect and other tax adjustments		(30,213)			(34,153)	
		<u>\$ 1,151,142</u>			<u>\$ 106,098</u>	
(4) Weighted average number of ordinary shares outstanding- Diluted	51,437		52,715	49,717		51,573

## Liquidity and Capital Resources

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

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>U.S. \$ in thousands</b>	
Net loss	\$ (1,140,985)	\$ (27,438)
Goodwill impairment	845,858	-
Impairment of other intangible assets	236,393	14,635
Depreciation and amortization	83,887	79,155
Deferred income taxes	(61,208)	(45,188)
Stock-based compensation	24,160	21,411
Change in fair value of obligations in connection with acquisitions	(22,958)	(1,289)
Foreign currency transactions loss and other non-cash items	7,105	4,111
Change in working capital and other items	(1,889)	(46,443)
Net cash used in operating activities	(29,637)	(1,046)
Net cash used in investing activities	(111,803)	(74,063)
Net cash provided by (used in) financing activities	(66,494)	45,538
Effect of exchange rate changes on cash	(1,988)	(1,016)
Net change in cash and cash equivalents	(209,922)	(30,587)
Cash and cash equivalents, beginning of period	442,141	414,088
Cash and cash equivalents, end of period	<u>\$ 232,219</u>	<u>\$ 383,501</u>

Our cash and cash equivalents balance decreased to \$232.2 million at September 30, 2015 from \$442.1 million at December 31, 2014. The decrease in cash and cash equivalents in the nine months ended September 30, 2015 was due to cash used in investing activities in an amount of \$111.8 million, cash used in financing activities in an amount of \$66.5 million and cash of \$29.6 million used in our operating activities.

Our cash and cash equivalents balance decreased to \$383.5 million at September 30, 2014 from \$414.1 million at December 31, 2013. The decrease was due to net cash used in investing activities of \$74.1 million and cash of \$1.0 million used in operating activities which was partially offset by cash flows provided by financing activities in an amount of \$45.5 million.

### *Cash flows from operating activities*

We used \$29.6 million of cash for our operating activities during the nine months ended September 30, 2015. Changes in working capital items consisted mainly of a decrease in accounts receivable and other receivables of \$31.5 million, partially offset by an increase in inventories of \$23.2 million and a decrease in other current liabilities of \$6.2 million.

During the nine months ended September 30, 2014, we used \$1.0 million of cash in our operating activities.

### ***Cash flows from investing activities***

We used \$111.8 million of cash in our investing activities during the nine months ended September 30, 2015. Cash was primarily used to purchase property and equipment in an amount of \$75.4 million as well as \$29.6 million of cash for investments in short-term bank deposits, net.

Property, plant and equipment purchases were \$75.4 million for the nine months ended September 30, 2015. Our principal property and equipment purchases were for our new property in Rehovot, which is currently under construction. The new Rehovot property will house the Company's Israeli headquarters, research and development facilities and certain manufacturing activities. Other property and equipment purchases were primarily for the enhancement of our manufacturing capabilities of our facilities in the United States.

During the nine months ended September 30, 2014, we used cash of \$74.1 million in our investing activities. Cash used to fund our acquisitions in an amount of \$141.7 million and to purchase property and equipment in an amount of \$43.8 million, was partially offset by cash provided in the amount of \$116 million due to the change in short-term bank deposits, net.

### ***Cash flows from financing activities***

Net cash used in our financing activities during the nine months ended September 30, 2015 was \$6.5 million. Cash used by financing activities was mainly attributed to repayment, net of \$50.0 million in connection of the termination of our credit facility. In addition, cash of \$18.8 million was used to finance our payments for obligations in connection with acquisitions and was partially offset by proceeds of \$2.4 million from the exercise of stock options.

During the nine months ended September 30, 2014, cash provided by financing activities was \$45.5 million. Borrowing under our credit facility provided cash of \$50.0 million and was partially offset by payment of \$10.8 million for the first earn-out period obligation in connection with MakerBot transaction.

### **Capital resources and capital expenditures**

Our total current assets amounted to \$588.3 million as of September 30, 2015, of which \$262.4 million consisted of cash and cash equivalents and short-term bank deposits. Total current liabilities amounted to \$172.0 million. Our cash and cash equivalents and short-term bank deposits are primarily held in banks in Israel, United Kingdom, Switzerland and the U.S.

The 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 expenditures 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*

In September 2015, we terminated our revolving credit facility. In connection with the termination of the Revolving Credit Facility, we repaid all of its outstanding short-term debt thereunder, in an amount of approximately \$175 million. That payment was made from our available cash balances. As a result of the extinguishment of our short-term debt under the Revolving Credit Facility, we recorded an additional non-recurring financial expense of \$2.7 million. The termination of our Revolving Credit Facility was executed as part of our assessment of our policies with respect to our working capital and cash management and will enable us to reduce our future interest expenses. We expect to have sufficient liquidity to fund our operations and working capital needs following the termination of the Revolving Credit Facility.

### *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; an additional \$4 million 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. 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. During July 2015, we issued 236,400 ordinary shares in the amount of \$8.2 million and paid cash of \$3.3 million to settle the first annual installment of the deferred payments and the deferred retention payments. Based on our share price as of September 30, 2015, the total undiscounted amount of the deferred payments consideration and retention bonus amounted to approximately \$20.6 million. We believe that our existing cash reserves 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 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 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 to efficiently and successfully integrate the operations of 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 to the Form 6-K.