

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 2016

Commission File Number 001-35751

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**STRATASYS LTD.**

(Translation of registrant's name into English)

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

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

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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3, 2013, respectively, and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.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 15, 2016, Stratasys Ltd., or Stratasys, released its financial results for the three and nine months ended September 30, 2016.

Attached hereto as [Exhibit 99.1](#) are the unaudited, condensed consolidated financial statements of Stratasys for the three and nine months ended September 30, 2016 (including the notes thereto) (the “[Q3 2016 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, 2016, including the following:

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

Attached hereto as [Exhibit 101](#) are the Q3 2016 Financial Statements, formatted in XBRL (eXtensible Business Reporting Language), consisting of the following sub-exhibits:

### Exhibit

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

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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 15, 2016

**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, 2016**  
**(UNAUDITED)**

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**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016  
(UNAUDITED)**

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

**Consolidated Balance Sheets**

(in thousands, except share data)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 239,345	\$ 257,592
Short-term bank deposits	-	571
Accounts receivable, net	109,235	123,215
Inventories	127,044	123,658
Net investment in sales-type leases	12,108	11,704
Prepaid expenses	8,428	8,469
Other current assets	18,722	21,864
Total current assets	514,882	547,073
<b>Non-current assets</b>		
Goodwill	386,325	383,853
Other intangible assets, net	208,034	252,468
Property, plant and equipment, net	214,570	201,934
Net investment in sales-type leases - long-term	14,688	17,785
Other non-current assets	30,245	11,243
Total non-current assets	853,862	867,283
<b>Total assets</b>	<b>\$ 1,368,744</b>	<b>\$ 1,414,356</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 37,793	\$ 39,021
Accrued expenses and other current liabilities	27,417	31,314
Accrued compensation and related benefits	39,220	34,052
Income taxes payable	4,089	11,395
Obligations in connection with acquisitions	4,607	4,636
Deferred revenues	49,548	52,309
Total current liabilities	162,674	172,727
<b>Non-current liabilities</b>		
Obligations in connection with acquisitions - long-term	-	4,354
Deferred tax liabilities	10,784	16,040
Deferred revenues - long-term	11,993	7,627
Other non-current liabilities	34,919	22,428
Total non-current liabilities	57,696	50,449
<b>Total liabilities</b>	<b>\$ 220,370</b>	<b>\$ 223,176</b>
Contingencies (see note 10)		
<b>Redeemable non-controlling interests</b>	<b>2,095</b>	<b>2,379</b>
<b>Equity</b>		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousands shares; 52,600 thousands shares and 52,082 thousands shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	141	141
Additional paid-in capital	2,625,844	2,605,957
Accumulated other comprehensive loss	(10,670)	(10,774)
Accumulated deficit	(1,469,164)	(1,406,706)
Equity attributable to Stratasys Ltd.	1,146,151	1,188,618
Non-controlling interests	128	183
Total equity	1,146,279	1,188,801
<b>Total liabilities and equity</b>	<b>\$ 1,368,744</b>	<b>\$ 1,414,356</b>

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

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

**Consolidated Statements of Operations and Comprehensive Loss**

<i>in thousands, except per share data</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Net sales</b>				
Products	\$ 110,083	\$ 118,473	\$ 352,475	\$ 379,630
Services	\$ 47,093	49,107	\$ 144,680	143,003
	157,176	167,580	497,155	522,633
<b>Cost of sales</b>				
Products	54,332	213,431	172,683	379,468
Services	29,163	34,045	90,090	94,065
	83,495	247,476	262,773	473,533
<b>Gross profit</b>	73,681	(79,896)	234,382	49,100
<b>Operating expenses</b>				
Research and development, net	23,993	37,698	73,474	90,442
Selling, general and administrative	69,069	121,304	218,340	321,493
Goodwill impairment	-	695,458	-	845,858
Change in fair value of obligations in connection with acquisitions	(24)	(3,022)	116	(22,958)
	93,038	851,438	291,930	1,234,835
<b>Operating loss</b>	(19,357)	(931,334)	(57,548)	(1,185,735)
<b>Financial income (expense), net</b>	104	(3,505)	1,216	(9,340)
<b>Loss before income taxes</b>	(19,253)	(934,839)	(56,332)	(1,195,075)
Income tax expenses (benefit)	1,538	(33,402)	6,283	(54,090)
Share in losses of associated company	(182)	-	(182)	-
<b>Net loss</b>	\$ (20,973)	\$ (901,437)	\$ (62,797)	\$ (1,140,985)
Net loss attributable to non-controlling interest	(146)	(164)	(339)	(493)
Net loss attributable to Stratasys Ltd.	\$ (20,827)	\$ (901,273)	\$ (62,458)	\$ (1,140,492)
<b>Net loss per ordinary share attributable to Stratasys Ltd.</b>				
Basic	\$ (0.40)	\$ (17.35)	\$ (1.20)	\$ (22.21)
Diluted	\$ (0.40)	\$ (17.35)	\$ (1.20)	\$ (22.21)
<b>Weighted average ordinary shares outstanding</b>				
Basic	52,432	51,941	52,232	51,437
Diluted	52,432	51,941	52,232	51,437
<b>Comprehensive loss</b>				
Net loss	\$ (20,973)	\$ (901,437)	\$ (62,797)	\$ (1,140,985)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(704)	(796)	(324)	(6,216)
Unrealized gains (losses) on derivatives designated as cash flow hedges	37	(474)	428	1,164
Other comprehensive income (loss), net of tax	(667)	(1,270)	104	(5,052)
Comprehensive loss	(21,640)	(902,707)	(62,693)	(1,146,037)
Less: comprehensive loss attributable to non-controlling interests	(146)	(164)	(339)	(493)
<b>Comprehensive loss attributable to Stratasys Ltd.</b>	\$ (21,494)	\$ (902,543)	\$ (62,354)	\$ (1,145,544)

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

**Consolidated Statements of Cash Flows**

<i>in thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (62,797)	\$ (1,140,985)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Goodwill impairment	-	845,858
Impairment of other intangible assets	1,779	236,393
Depreciation and amortization	69,743	83,887
Stock-based compensation	15,886	24,160
Foreign currency transaction loss	(4,260)	6,892
Deferred income taxes	(6,207)	(61,208)
Change in fair value of obligations in connection with acquisitions	116	(22,958)
Other non-cash items	1,706	213
Change in cash attributable to changes in operating assets and liabilities, net of the impact of acquisitions:		
Accounts receivable, net	15,194	18,390
Inventories	(5,447)	(23,193)
Net investment in sales-type leases	2,693	(5,479)
Other current assets and prepaid expenses	1,355	14,617
Other non-current assets	792	(99)
Accounts payable	(1,250)	(3,755)
Other current liabilities	(6,989)	(6,247)
Deferred revenues	937	6,113
Other non-current liabilities	12,768	(2,236)
<b>Net cash provided by (used in) operating activities</b>	<b>36,019</b>	<b>(29,637)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(31,689)	(75,443)
Proceeds from maturities of short-term bank deposits	68,363	158,176
Investment in short-term bank deposits	(67,079)	(182,286)
Investment in unconsolidated entities	(23,064)	-
Purchase of intangible assets	(1,128)	(2,051)
Cash paid for acquisitions, net of cash acquired	-	(9,905)
Other investing activities	(212)	(294)
<b>Net cash used in investing activities</b>	<b>(54,809)</b>	<b>(111,803)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term debt	-	125,000
Repayment of short-term debt	-	(175,000)
Payments of obligations in connection with acquisitions	(1,386)	(18,846)
Proceeds from exercise of stock options	817	2,352
<b>Net cash used in financing activities</b>	<b>(569)</b>	<b>(66,494)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,112</b>	<b>(1,988)</b>
<b>Net change in cash and cash equivalents</b>	<b>(18,247)</b>	<b>(209,922)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>257,592</b>	<b>442,141</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 239,345</b>	<b>\$ 232,219</b>
<b>Supplemental disclosures of cash flow information:</b>		
Transfer of fixed assets to inventory	1,032	3,633
Transfer of inventory to fixed assets	4,309	4,090

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



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

**Note 1. Basis of Presentation and Consolidation**

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

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

The consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year. Certain financial information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. The reader is referred to the audited consolidated financial statements and notes thereto for the year ended December 31, 2015, filed as part of the Company’s Annual Report on Form 20-F for such year.

***Recently issued accounting pronouncements***

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

In March 2016, the FASB issued a new ASU which simplifies the transition to the equity method of accounting. The new guidance eliminates the requirement to retrospectively apply equity method of accounting for an investment that subsequently qualifies for use of the equity method of accounting as a result of an increase in level of ownership interest or degree of influence. Under the new ASU, the investor will add the carrying value of the existing investment to the cost of the additional investment to determine the initial cost basis of the equity method investment. This ASU is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. The Company has early adopted this ASU. The adoption of this guidance does not have a material impact on the Company’s consolidated financial statements.

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

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

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, on its business processes, systems and controls and the method of adoption to be used.

**Note 2. Significant Business Activities**

*Appointment of New Chief Executive Officer*

In June 2016, the Company announced the appointment of Ilan Levin as the Company's Chief Executive Officer, effective July 1, 2016. Mr. Levin, a member of the Company's board of directors and Executive Committee, succeeded David Reis, who announced his resignation in June 2016. David Reis will remain a member of the Company's board of directors as an Executive Director.

*Equity-Method Investment*

In June 2016, the Company invested additional amount in the equity interests of a third party entity which offers AM solutions. The Company increased its interest in the third party entity from 10% to approximately 40% and has a significant influence over the third party entity and therefore accounts for this investment under the equity method of accounting. This investment is presented as other non-current asset in the Company's consolidated balance sheets.

**Note 3. Inventories**

Inventories, net consisted of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
	<b>U.S. \$ in thousands</b>	
Finished goods	\$ 74,680	\$ 78,604
Work-in-process	6,265	6,559
Raw materials	46,099	38,495
	<u>\$ 127,044</u>	<u>\$ 123,658</u>

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

**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, 2016, were as follows:

	<b>(U.S. \$ in millions)</b>
Goodwill as of January 1, 2016	\$ 383.9
Currency translation adjustments	2.4
Goodwill as of September 30, 2016	<u>\$ 386.3</u>

Interim goodwill assessment for 2016

During the second quarter of 2016, the Company determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for its Stratasys-Objet reporting unit existed as of June 30, 2016. These indicators included a further decrease in the Company's share price for a sustained period and lower than expected revenues of its Stratasys-Objet reporting unit for the second quarter of 2016, as well as the current trends and challenges in the evolving 3D printing industry. Accordingly, the Company performed a quantitative assessment for goodwill impairment for its Stratasys-Objet reporting unit.

The Company estimated the fair value of its Stratasys-Objet reporting unit 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 reporting unit were based on expected future cash flows and an estimated terminal value using a terminal year growth rate based on the growth prospects for Stratasys-Objet reporting unit. The Company used an applicable discount rate which reflected the associated specific risks for its Stratasys-Objet reporting unit future cash flows.

The Company concluded that the fair value of its Stratasys-Objet reporting unit exceeds its carrying amount by more than 10%. The carrying amount of goodwill which is assigned to this reporting unit is \$386 million.

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 4.5 years 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 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 \$69 million and \$105 million, respectively.

Based on the Company's assessment as of June 30, 2016, no goodwill was determined to be impaired.

During the third quarter of 2016 the Company reaffirmed that no significant events or circumstances occurred that contradict the assumptions and data used in the interim impairment test performed in the second quarter of 2016.

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

The Company is required to perform its annual goodwill impairment analysis on the fourth quarter of each year. The Company will keep monitor if significant decline in the Company's market capitalization for a sustained period and weaker than expected future cash flow estimates or changes in the Company's weighted average cost of capital may require to record impairment charges.

Interim goodwill assessment for 2015

During the third quarter of 2015, the Company determined that additional indicators of potential impairment existed that required an interim goodwill impairment analysis for all of its reporting units. 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. These indicators along with certain reorganization initiatives for the Company's operations and the increased uncertainty in the 3D printing environment resulted in changes of the Company's near-term cash flows projections. The lower near-term cash flows projections reflected changes in assumptions related to organic revenue growth rates, negative effect of exchange rate differences, costs and operating structure, the expected timing of synergies resulted from acquisitions and the timing of utilization of strategic opportunities in light of the overall weakness in the uncertain 3D printing marketplace. Accordingly, the Company updated its cash flow projections and related assumptions based on the indicators set forth above for each of its reporting units and performed a preliminary two-step goodwill impairment test which resulted in a goodwill impairment charge of \$695.5 million recorded during the third quarter of 2015. The preliminary second step of the goodwill impairment test was 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 two-step goodwill impairment test was completed during the fourth quarter of 2015 and resulted in an additional impairment charge of \$96.5 million which were recorded during the fourth quarter of 2015.

The impairment analysis performed as part of the step two of the goodwill impairment test determined that the carrying amount of goodwill assigned exceeded its implied fair value for each of the Company's reporting units, resulting no remaining goodwill balance assigned to the Company's reporting units, other than Stratasys-Objet reporting unit.

*Other Intangible Assets*

Other intangible assets consisted of the following:

	September 30, 2016			December 31, 2015		
	Carrying Amount,		Net	Carrying Amount,		Net
	Net of	Accumulated	Book	Net of	Accumulated	Book
	Impairment	Amortization	Value	Impairment	Amortization	Value
U.S. \$ in thousands						
Developed technology	\$ 304,754	\$ (188,485)	\$ 116,269	\$ 306,657	\$ (157,862)	\$ 148,795
Patents	18,871	(11,443)	7,428	17,785	(10,008)	7,777
Trademarks and trade names	32,520	(16,263)	16,257	32,443	(14,463)	17,980
Customer relationships	116,136	(51,209)	64,927	115,957	(41,708)	74,249
Non-compete agreements	5,874	(5,874)	-	5,874	(5,874)	-
Capitalized software development costs	20,176	(18,031)	2,145	20,010	(17,351)	2,659
In process research and development	1,008	-	1,008	1,008	-	1,008
	<b>\$ 499,339</b>	<b>\$ (291,305)</b>	<b>\$ 208,034</b>	<b>\$ 499,734</b>	<b>\$ (247,266)</b>	<b>\$ 252,468</b>

Amortization expense relating to intangible assets for the three-month periods ended September 30, 2016 and 2015 was approximately \$14.7 million and \$18.8 million, respectively.

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

Amortization expense relating to intangible assets for the nine-month periods ended September 30, 2016 and 2015 was approximately \$43.9 million and \$59.3 million, respectively.

*Other intangible assets impairment charges for 2015*

During the third quarter of 2015, the Company concluded that the carrying amount of certain of its definite-life purchased intangible assets might not be recoverable due to certain indicators of impairment including a further significant decline in the Company's market capitalization for a sustained period, weaker than expected operating results for the third quarter of 2015, certain reorganization initiatives for the Company's operations and certain technological trends in the additive manufacturing industry, as well as the increased uncertainty in the 3D printing environment.

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. For those unrecoverable intangible assets that considered to be impaired, 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.

In addition, the Company reviewed for impairment its indefinite-life intangible, which consists of IPR&D projects. The indicators for the impairment assessment were the weaker than expected operating results for the third quarter along with review of the strategic research and development roadmap which resulted in changes in long-term projections. The Company tested for impairment certain of its IPR&D projects, based on its projected discounted future cash flows expected to result, by using the probability-weighted cash flow approach. Based on the results of the impairment assessment, the Company determined that the carrying value of certain of its IPR&D projects exceeded their fair value. Accordingly, the Company recorded impairment charges of \$9.8 million, related to its in-process research and development projects, which were classified as research and development expenses, in order to reduce the carrying amount of those intangible assets to their estimated fair value.

As of September 30, 2016, estimated amortization expense relating to intangible assets currently subject to amortization for each of the following periods were as follows:

	<b>Estimated amortization expense (U.S. \$ in thousands)</b>
Remaining 3 months of 2016	\$ 14,792
2017	58,385
2018	55,664
2019	42,477
2020	15,677
Thereafter	20,031
Total	\$ 207,026

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

**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. Basic net income (loss) per 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 and presumed share settlement of the Company's deferred payments liability.

The following table presents the numerator and denominator of the basic and diluted net loss per share computations for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	In thousands, except per share amounts			
<b>Numerator:</b>				
Net loss attributable to Stratasys Ltd.	\$ (20,827)	\$ (901,273)	\$ (62,458)	\$ (1,140,492)
Adjustment of redeemable non-controlling interest to redemption amount	-	-	-	(1,800)
Net loss attributable to Stratasys Ltd. for basic and diluted loss per share	(20,827)	(901,273)	(62,458)	(1,142,292)
<b>Denominator:</b>				
Weighted average shares – denominator for basic and diluted net loss per share	52,432	51,941	52,232	51,437
<b>Net loss per share attributable to Stratasys Ltd.</b>				
Basic	\$ (0.40)	\$ (17.35)	\$ (1.20)	\$ (22.21)
Diluted	\$ (0.40)	\$ (17.35)	\$ (1.20)	\$ (22.21)

The computation of diluted net loss per share, excluded share awards of 3.53 million shares and 3.88 million shares for the three months ended September 30, 2016 and 2015, respectively, and 3.64 million shares and 4.33 million shares for the nine months ended September 30, 2016 and 2015, because their inclusion would have had an anti-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.

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

**Note 6. Income Taxes**

The Company had negative effective tax rate of 8.0% for the three-month periods ended September 30, 2016 compared to effective tax rate of 3.6% for the three-month periods ended September 30, 2015, and negative effective tax rate of 11.2% for the nine-month periods ended September 30, 2016 compared to effective tax rate of 4.5% for the nine-month periods ended September 30, 2015. The Company's effective tax rate has varied due to changes in the mix of taxable income and loss between Israel and the U.S., driven by no tax benefit being recorded for its U.S. subsidiaries tax losses for the three-month and nine-month periods ended September 30, 2016.

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, 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, 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 deferred tax assets is more likely than not.

On November 2016, the Company's foreign subsidiary received a favorable tax ruling from the tax authorities, as a result, in the fourth quarter of 2016, the Company will record an income tax benefit of \$7.8 million.

**Note 7. Fair Value Measurements**

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

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

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

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

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

*Financial instruments measured at fair value*

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

	<b>September 30, 2016</b> (U.S. \$ in thousands)		
	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>			
Foreign exchange forward contracts not designated as hedging instruments	\$ 298	\$ -	\$ 298
Foreign exchange forward contracts designated as hedging instruments	322	-	322
<b>Liabilities:</b>			
Foreign exchange forward contracts not designated as hedging instruments	(295)	-	(295)
Foreign exchange forward contracts designated as hedging instruments	(2)	-	(2)
Obligations in connection with acquisitions	-	(3,607)	(3,607)
	<u>\$ 323</u>	<u>\$ (3,607)</u>	<u>\$ (3,284)</u>

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

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

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



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

*Other fair value disclosures*

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

	<b>Nine months ended</b>	<b>Year ended</b>
	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	(U.S. \$ in thousands)	
Fair value at the beginning of the period	\$ 6,991	\$ 35,656
Settlements	(3,500)	(4,994)
Change in fair value recognized in earnings	116	(23,671)
Fair value at the end of the period	<u>\$ 3,607</u>	<u>\$ 6,991</u>

The Company's obligations in connection with acquisitions as of September 30, 2016 are related to the deferred payments for the Company's acquisition of Solid Concepts Inc. (the "Solid Concepts transaction"). As part of the Solid Concepts transaction, which was completed in July 2014, the Company is obligated to pay additional deferred payments in three separate annual installments after the Solid Concepts transaction date ("deferred payments"). Subject to certain requirements for cash payments, the Company retains the discretion to settle the deferred payments in its shares, cash or any combination of the two. The deferred payments are also subject to certain adjustments based on the Company's share price. During the third quarter of 2016, the Company issued 152,633 ordinary shares valued at \$3.1 million and paid cash of \$0.4 million to settle the second annual installment of the deferred payments. During the third quarter of 2015, the Company issued 118,789 ordinary shares valued at \$4.1 million and paid cash of \$0.9 million to settle the first annual installment of the deferred payments.

The deferred payments are recognized as liabilities at fair value in the Company's consolidated balance sheets and are classified as short-term and long-term obligations in connection with acquisitions. The fair value of the deferred payments was determined based on the closing market price of the Company's ordinary shares on the Solid Concepts transaction date, adjusted to reflect a discount for lack of marketability for the applicable periods. The discount for lack of marketability was calculated based on the historical volatility of the Company's share price and thus represents a Level 3 measurement within the fair value hierarchy. As of September 30, 2016, the fair value of the remaining deferred payments was \$3.6 million. As of September 30, 2016, the total amount of the remaining deferred payments, which does not reflect a discount for lack of marketability, was approximately \$4.1 million, based on the Company's share price as of that date.

The fair value of the deferred payments is primarily linked to the Company's share price. An increase of 10% in the Company's share price as of September 30, 2016 would have increased the fair value of the remaining deferred payments by \$0.4 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, 2016 would have increased the fair value of the Company's deferred payments liability by approximately \$0.1 million.

With respect to the fair-value revaluations of the deferred payments, the Company recorded gains of \$0.02 million and \$3.0 million for the three-month periods ended September 30, 2016 and 2015, respectively, and a loss of \$0.1 million and a gain of \$23.0 million, for the nine-month periods ended September 30, 2016 and 2015, respectively. Such fair-value revaluations are presented under change in fair value of obligations in connection with acquisitions in the Company's consolidated statements of operations and comprehensive loss.

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

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

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

Balance sheet location	Fair Value		Notional Amount		
	September 30,	December 31,	September 30,	December 31,	
	2016	2015	2016	2015	
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 298	\$ 866	\$ 24,572	\$ 54,586
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	322	23	7,780	2,700
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(295)	(432)	22,274	35,036
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	Accrued expenses and other current liabilities	(2)	(131)	2,000	13,682
		<u>\$ 323</u>	<u>\$ 326</u>	<u>\$ 56,625</u>	<u>\$ 106,004</u>

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

As of September 30, 2016, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$32.1 million, \$4.1 million and \$10.6 million, and are used to reduce foreign currency exposures of the Euro, New Israeli Shekel (the "NIS") and Japanese Yen, respectively. With respect to such derivatives, gain of \$0.1 million and loss of \$0.2 million were recognized under financial income (expense), net for the three-month periods ended September 30, 2016 and 2015, respectively, and loss of \$2.3 million and gain of \$3.4 million were recognized under financial income (expense), net for the nine-month periods ended September 30, 2016 and 2015, respectively. Such losses and gains partially offset the revaluation changes of foreign currencies the balance sheet items, which are also recognized under financial income (expense), net.

As of September 30, 2016, the Company had in effect foreign exchange forward contracts, designated as cash flow hedge for accounting purposes, for the conversion of \$9.8 million into NIS. The Company uses short-term cash flow hedge contracts to reduce its exposure to variability in expected future cash flows resulting mainly from payroll costs denominated in NIS. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss. These contracts mature through May 2017.

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

**Note 9. Equity**

**a. Stock-based compensation plans**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	U.S. \$ in thousands			
Cost of sales	\$ 680	\$ 739	\$ 2,131	\$ 4,369
Research and development, net	\$ 1,103	985	\$ 3,819	4,359
Selling, general and administrative	3,001	3,112	9,936	15,432
Total stock-based compensation expenses	\$ 4,784	\$ 4,836	\$ 15,886	\$ 24,160

A summary of the Company's stock option activity for the nine months ended September 30, 2016 was as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2016	2,449,742	\$ 39.73
Granted	559,340	23.03
Exercised	(102,511)	7.97
Forfeited	(202,955)	40.79
Options outstanding as of September 30, 2016	2,703,616	\$ 37.35
Options exercisable as of September 30, 2016	1,325,588	\$ 38.30

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, 2016 was \$12.36 per option.

During the nine-month periods ended September 30, 2016 and 2015, the Company issued 102,511 shares and 125,193 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$0.8 million and \$2.4 million for the nine-month periods ended September 30, 2016 and 2015, respectively.

As of September 30, 2016, the unrecognized compensation cost related to all unvested, equity-classified stock options of \$16.7 million is expected to be recognized as an expense over a weighted-average period of 2.7 years.

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

A summary of the Company's RSUs activity for the nine months ended September 30, 2016 was as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested RSUs outstanding as of January 1, 2016	559,124	\$ 81.35
Forfeited	(90,058)	79.19
Vested	(170,080)	94.19
Unvested RSUs outstanding as of September 30, 2016	<u>298,986</u>	<u>74.70</u>

The fair value of RSUs is determined based on the quoted price of the Company's ordinary shares on the date of the grant. There were no new RSUs grants during the nine months ended September 30, 2016.

As of September 30, 2016, the unrecognized compensation cost related to all unvested, equity-classified RSUs of \$14.6 million is expected to be recognized as expense on a straight-line basis over a weighted-average period of 2.1 years.

**b. Accumulated other comprehensive income (loss)**

The following table presents the changes in the components of accumulated other comprehensive income (loss), net of taxes for the nine months ended September 30, 2016 and 2015:

	Nine months ended September 30, 2016		
	Net unrealized gain (loss) on cash flow hedges	Foreign currency translation adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2016	\$ (107)	\$ (10,667)	\$ (10,774)
Other comprehensive income before reclassifications	813	(324)	489
Amounts reclassified from accumulated other comprehensive income	(385)	-	(385)
Other comprehensive income	428	(324)	104
Balance as of September 30, 2016	<u>\$ 321</u>	<u>\$ (10,991)</u>	<u>\$ (10,670)</u>

	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 income	1,575	-	1,575
Other comprehensive income (loss)	1,164	(6,216)	(5,052)
Balance as of September 30, 2015	<u>\$ (79)</u>	<u>\$ (8,620)</u>	<u>\$ (8,699)</u>

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

**Note 10. Contingencies**

*Claims Related to Company Equity*

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

The lawsuits allege in particular that a series of investments in Objet during 2002 and 2007 was effected at a price per share that was below fair market value, thereby illegally diluting those shareholders that did not participate in the investments. The plaintiffs also allege that a portion of the amount invested in those transactions was actually invested by an investor who was already a shareholder of Objet and allegedly acting in concert with Mr. Jaglom, and that the interest of these two shareholders in these transactions was not properly disclosed to the minority shareholders at the time. The lawsuits furthermore claim that the Company effectively engaged in backdating the issuance of certain shares, in that shares that Objet reported as having been issued in 2006 and 2007 were actually issued at a subsequent date—as late as 2009. The Company filed its statements of defense in May 2013 denying the plaintiffs' claims. The court has dismissed the lawsuit of one of the former directors due to lack of cause. The suits are currently at the stage of pre-trial hearings.

*Securities Law Class Actions*

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

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

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

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included as Exhibit 99.1 to the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review and Prospects is attached, or the Form 6-K. The discussion below contains forward-looking statements (within the meaning of the United States federal securities laws) that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Forward-looking Statements and Factors that May Affect Future Results of Operations", below, as well in the "Risk Factors" in Item 3.D of our Annual Report on Form 20-F for the year ended December 31, 2015, or our 2015 Annual Report.*

**Overview of Business and Trend Information**

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

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

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

We conduct our business globally and provide products and services to our global customer base through our main operational facilities which are located in Israel, the United States, Germany and Hong Kong as well through our offices in China, Italy, Brazil, India, Japan, Korea and Singapore. Our extensive global reach is well-positioned through a network of more than 200 resellers and selling agents around the world and an online channel. We have more than 2,500 employees and hold more than 1,200 granted or pending additive manufacturing patents globally.

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

**Summary of Financial Results**

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. In the opinion of our management, all adjustments considered necessary for a fair statement of the unaudited condensed consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual results, on a GAAP basis, for the three and nine months ended September 30, 2016 with the corresponding periods in 2015.

## Results of Operations

### Comparison of Three Months Ended September 30, 2016 to Three Months Ended September 30, 2015

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

	Three Months Ended September 30,			
	2016		2015	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 157,176	100.0%	\$ 167,580	100.0%
Cost of sales	83,495	53.1%	247,476	147.7%
Gross profit (loss)	73,681	46.9%	(79,896)	-47.7%
Research and development, net	23,993	15.3%	37,698	22.5%
Selling, general and administrative	69,069	43.9%	121,304	72.4%
Goodwill impairment	-	0.0%	695,458	415.0%
Change in fair value of obligations in connection with acquisitions	(24)	0.0%	(3,022)	-1.8%
Operating loss	(19,357)	-12.3%	(931,334)	-555.8%
Financial income (expense), net	104	0.1%	(3,505)	-2.1%
Loss before income taxes	(19,253)	-12.2%	(934,839)	-557.8%
Income tax expenses (benefit)	1,538	1.0%	(33,402)	-19.9%
Share in losses of associated company	(182)	-0.1%	-	0.0%
Net loss attributable to non-controlling interests	(146)	-0.1%	(164)	-0.1%
Net loss attributable to Stratasy Ltd.	(20,827)	-13.3%	(901,273)	-537.8%

## 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,		
	2016	2015	% Change
	U.S. \$ in thousands		
Products	\$ 110,083	\$ 118,473	-7.1%
Services	47,093	49,107	-4.1%
	<u>\$ 157,176</u>	<u>\$ 167,580</u>	-6.2%

### Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) decreased by \$8.4 million, or 7.1% for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015. The decrease in products net sales was driven by a decrease in our systems revenues and was partially offset by an increase in our sales of consumables.

The decrease in systems and other products revenue was driven primarily by the overall market weakness and lengthy sales cycles which resulted in lower sales volumes across most regions and product lines.

Consumables net sales for the three months ended September 30, 2016 increased by 11.9% as compared to the three months ended September 30, 2015. The increase was driven by the addition of advanced material offerings and our growing installed base of systems and steady utilization trends within our installed base of systems.

### Services Revenues

Services revenues (including SDM, maintenance and other services) decrease by \$2.0 million for the three months ended September 30, 2016, or 4.1%, as compared to the three months ended September 30, 2015. The decrease in services revenues was primarily attributable to decrease in SDM revenues partially offset by an increase in maintenance contracts and service parts, reflecting our growing installed base of systems.

### Revenues by Region

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

	Three Months Ended September 30,				% Change
	2016		2015		
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales	
North America	\$ 96,112	61.2%	\$ 102,767	61.3%	-6.5%
EMEA	31,256	19.9%	34,501	20.6%	-9.4%
Asia Pacific	27,093	17.2%	26,388	15.8%	2.7%
Other	2,715	1.7%	3,924	2.3%	-30.8%
	<u>\$ 157,176</u>	<u>100.0%</u>	<u>\$ 167,580</u>	<u>100.0%</u>	<u>-6.2%</u>

Net sales for the three months ended September 30, 2016 in the North America region decreased by \$6.7 million, or 6.5%, as compared to the three months ended September 30, 2015. The decrease was driven primarily by lower net sales of our systems as well as services revenues due to lower SDM revenues, partially offset by higher consumables revenues.

Net sales for the three months ended September 30, 2016 in the EMEA region decreased by \$3.2 million, or 9.4% as compared to the three months ended September 30, 2015 primarily due to lower sales of our systems, partially offset by higher consumables revenues.

Net sales in the Asia Pacific region increased by \$0.7 million, or 2.7%, for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The increase was driven primarily by higher consumables revenues, partially offset by lower net sales of our systems.

### 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,	
	2016	2015
	U.S. \$ in thousands	
<b>Gross profit (loss) attributable to:</b>		
Products	\$ 55,751	\$ (94,958)
Services	17,930	15,062
	<u>\$ 73,681</u>	<u>\$ (79,896)</u>



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

	<b>Three Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Gross profit (loss) as a percentage of revenues from:</b>		
Products	50.6%	-80.2%
Services	38.1%	30.7%
Total gross profit	<u>46.9%</u>	<u>-47.7%</u>

Gross profit attributable to products revenues increased by \$150.7 million, or 158.7%, to \$55.8 million for the three months ended September 30, 2016 as compared to gross loss of \$95.0 million for the three months ended September 30, 2015. Gross profit attributable to products revenues as a percentage of products revenues increased to 50.6% for the three months ended September 30, 2016 as compared to gross loss of 80.2% for the three months ended September 30, 2015.

The increase in gross profit attributable to products sales was primarily due to non-recurring impairment charges of \$151.0 million related to certain of our developed technology intangible assets, that were recorded during the three months ended September 30, 2015 as well as favorable changes in product mix, partially offset by lower systems revenues.

Gross profit attributable to services revenues increased by \$2.9 million, or 19.0%, to \$17.9 million for the three months ended September 30, 2016 as compared to \$15.1 million for the three months ended September 30, 2015. Gross profit attributable to services revenues as a percentage of services revenues in the three months ended September 30, 2016 increased to 38.1%, as compared to 30.7% for the three months ended September 30, 2015. The increase in gross profit from services primarily reflects change in the mix of service offerings as well as the favorable impact of our cost reduction initiatives.

### 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:

	<b>Three Months Ended September 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
	<b>U.S. \$ in thousands</b>		
Research and development, net	\$ 23,993	\$ 37,698	-36.4%
Selling, general & administrative	69,069	121,304	-43.1%
Goodwill impairment	-	695,458	-100.0%
Change in fair value of obligations in connection with acquisitions	(24)	(3,022)	-99.2%
	<u>\$ 93,038</u>	<u>\$ 851,438</u>	<u>-89.1%</u>
Percentage of net sales	59.2%	508.1%	

Research and development expenses, net for the three months ended September 30, 2016 decreased by \$13.7 million, or 36.4%, as compared to the three months ended September 30, 2015. The decrease was primarily due to non-recurring impairment charges of \$9.8 million related to certain of our in-process research and development projects that were recorded during the three months ended three months ended September 30, 2015 as well as our costs-savings initiatives.

Research and development expense, net as a percentage of sales decreased to 15.3% in the three months ended September 30, 2016 as compared to 22.5% in the three months ended September 30, 2015. Our research and development projects reflects our intention to continue focusing on enhancing our AM technologies and developing consumables that offer an even broader array of physical, mechanical and aesthetic properties, aimed at broadening user applications, as well as software solutions to create a leading 3D printing ecosystem.

Selling, general and administrative expenses for the three months ended September 30, 2016 decreased by \$52.2 million, or 43.1%, to \$69.1 million, as compared to \$121.3 million for the three months ended September 30, 2015. Selling, general and administrative expenses for the three months ended September 30, 2016 as percentage of net sales were 43.9% as compared to 72.4% for the three months ended September 30, 2015.

The decrease in our selling, general and administrative expenses was primarily due to non-recurring intangible assets impairment charges of \$32.2 million, that were recorded during the three months ended September 30, 2015 as well as lower reseller commissions and the favorable impact of our costs reduction initiatives which reduced our direct and indirect expenses.

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 second step of the goodwill impairment test was 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 two-step goodwill impairment test was completed during the fourth quarter of 2015 and resulted in an additional impairment charge of \$96.5 million which were recorded during the fourth quarter of 2015.

We will continue to monitor our Stratasys-Objet reporting unit to determine whether events and changes in circumstances such as significant adverse changes in business climate or operating results, further significant decline in our market capitalization for a sustained period and weaker than expected future cash flow estimates or changes in the Company's weighted average cost of capital may require us to record impairment charges.

During the three months ended September 30, 2016, and 2015, the changes in fair value of obligations in connection with acquisitions resulted in gains of \$0.02 million and \$3.0 million, respectively. The changes in fair value of obligations in connection with acquisitions were due to revaluation of the deferred consideration as part of the Solid Concepts transaction. For further information, see note 7 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

### Operating Loss

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

	<b>Three Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>U.S. \$ in thousands</b>	
Operating loss	\$ (19,357)	\$ (931,344)
Percentage of net sales	-12.3%	-555.8%

Operating loss for the three months ended September 30, 2016 amounted to \$19.4 million compared to operating loss of \$931.3 million for the three months ended September 30, 2015. The decrease in operating loss was primarily attributable to the non-recurring, non-cash intangible assets and goodwill impairment charges of \$888.6 million recorded in the three months ended September 30, 2015 and costs reduction initiatives as discussed above.

#### Financial income (expense), net

Financial income, net amounted to \$0.1 million for the three months ended September 30, 2016, was primarily comprised of foreign currencies effects and interest income. Financial expense, net amounted to \$3.5 million for the three months ended September 30, 2015, was primarily comprised of foreign currencies effects and costs related to the termination of our revolving credit facility during September 2015, in the 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:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>U.S. \$ in thousands</b>	
Income tax expense (benefit)	\$ 1,538	\$ (33,402)
As a percent of loss before income taxes	-8.0%	3.6%

Income taxes amounted to \$1.5 million, which reflected a negative effective tax rate of 8.0% for the three months ended September 30, 2016, as compared to an effective tax rate of 3.6% for the three months ended September 30, 2015.

Our effective tax rate has varied significantly due to changes in the mix of taxable income and loss between Israel and the U.S., driven by no tax benefit being recorded for its U.S. subsidiaries tax losses for the three-month period ended September 30, 2016.

We will continue to monitor whether the realization of our deferred tax assets is more likely than not.

On November 2016, our foreign subsidiary received a favorable tax ruling from the tax authorities, as a result, in the fourth quarter of 2016, we will record an income tax benefit of \$7.8 million.

#### 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>2016</b>	<b>2015</b>
	<b>U.S. \$ in thousands</b>	
Net loss attributable to Stratasys Ltd.	\$ (20,827)	\$ (901,273)
Percentage of net sales	-13.3%	-537.8%
Diluted net loss per share	\$ (0.40)	\$ (17.35)

Net loss attributable to Stratasys Ltd. for the three months ended September 30, 2016 was \$20.8 million as compared to net loss of \$901.3 million for the three months ended September 30, 2015. The decrease of the net loss attributable to Stratasys Ltd. was primarily attributable to the non-recurring, non-cash intangible assets and goodwill impairment charges of \$888.6 million recorded in the three months ended September 30, 2015 and costs reduction initiatives as discussed above, which was partially offset by higher income taxes.

Diluted loss per share was \$0.40 for the three months ended September 30, 2016, compared to net loss per diluted share of \$17.35 for the three months ended September 30, 2015. The weighted average fully diluted share count for the three months ended September 30, 2016 was 52.4 million, compared to 51.9 million for the three months ended September 30, 2015.

#### Comparison of Nine Months Ended September 30, 2016 to Nine Months Ended September 30, 2015

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, 2016 and 2015. 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,			
	2016		2015	
	U.S. \$ in thousands	% of Net sales	U.S. \$ in thousands	% of Net sales
Net sales	\$ 497,155	100.0%	\$ 522,633	100.0%
Cost of sales	262,773	52.9%	473,533	90.6%
Gross profit	234,382	47.1%	49,100	9.4%
Research and development, net	73,474	14.8%	90,442	17.3%
Selling, general and administrative	218,340	43.9%	321,493	61.5%
Goodwill impairment	-	0.0%	845,858	161.8%
Change in fair value of obligations in connection with acquisitions	116	0.0%	(22,958)	-4.4%
Operating loss	(57,548)	-11.6%	(1,185,735)	-226.9%
Financial income (expense), net	1,216	0.2%	(9,340)	-1.8%
Loss before income taxes	(56,332)	-11.3%	(1,195,075)	-228.7%
Income tax expenses (benefit)	6,283	1.3%	(54,090)	-10.3%
Share in losses of associated company	(182)	0.0%	-	0.0%
Net loss attributable to non-controlling interests	(339)	-0.1%	(493)	-0.1%
Net loss attributable to Stratasys Ltd.	(62,458)	-12.6%	(1,140,492)	-218.2%

#### 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,		
	2016	2015	% Change
	U.S. \$ in thousands		
Products	\$ 352,475	\$ 379,630	-7.2%
Services	144,680	143,003	1.2%
	\$ 497,155	\$ 522,633	-4.9%

### Products Revenues

Revenues derived from products (including AM systems, consumable materials and other products) decreased by \$27.2 million for the nine months ended September 30, 2016, or 7.2%, as compared to the nine months ended September 30, 2015.

The decrease in systems and other products revenue was driven primarily by the overall market weakness and lengthy sales cycles which resulted in lower sales volumes across all regions and product lines.

Consumables revenues for the nine months ended September 30, 2016 increased by 9.5% as compared the nine months ended September 30, 2015. The increase was driven by addition of advanced material offerings and our growing installed base of systems.

### Services Revenues

Services revenues (including SDM, maintenance and other services) increased by \$1.7 million for the nine months ended September 30, 2016, or 1.2%, as compared to the nine months ended September 30, 2015. The increase in services revenues was primarily attributable to maintenance contracts and service parts, partially offset by decrease in SDM revenues.

### Revenues by Region

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

	Nine Months Ended September 30,				<u>% Change</u>
	2016		2015		
	<u>U.S. \$ in thousands</u>	<u>% of Net sales</u>	<u>U.S. \$ in thousands</u>	<u>% of Net sales</u>	
North America	\$ 296,076	59.6%	\$ 311,344	59.6%	-4.9%
EMEA	102,107	20.5%	108,717	20.8%	-6.1%
Asia Pacific	90,776	18.3%	93,282	17.8%	-2.7%
Other	8,196	1.7%	9,290	1.8%	-11.8%
	<u>\$ 497,155</u>	<u>100.0%</u>	<u>\$ 522,633</u>	<u>100.0%</u>	<u>-4.9%</u>

Net sales for the nine months ended September 30, 2016 in all regions decreased as compared to the nine months ended September 30, 2015, due to lower net sales of our systems, partially offset by higher consumables net sales and services revenues.

### Gross Profit

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

	Nine Months Ended	
	September 30,	
	2016	2015
	<u>U.S. \$ in thousands</u>	
<b>Gross profit attributable to:</b>		
Products	\$ 179,792	\$ 162
Services	54,590	48,938
	<u>\$ 234,382</u>	<u>\$ 49,100</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,	
	2016	2015
<b>Gross profit as a percentage of revenues from:</b>		
Products	51.0%	0.0%
Services	37.7%	34.2%
Total gross profit	47.1%	9.4%

Gross profit attributable to products revenues increased by \$179.6 million, to \$179.8 million for the nine months ended September 30, 2016 as compared to \$0.2 million for the nine months ended September 30, 2015. Gross profit attributable to products revenues as a percentage of products revenues increased to 51.0% for the nine months ended September 30, 2016 as compared to 0.0% for the nine months ended September 30, 2015.

The increase in gross profit attributable to products revenues was primarily due to non-recurring impairment charges of \$180.8 million related to certain of our developed technology intangible assets that were recorded during the three months ended three months ended September 30, 2015, as well as lower amortization expenses, partially offset by decrease in systems revenues.

Gross profit attributable to services revenues increased by \$5.7 million, or 11.5%, to \$54.6 million for the nine months ended September 30, 2016 as compared to \$48.9 million for the nine months ended September 30, 2015. Gross profit attributable to services revenues as a percentage of services revenues in the nine months ended September 30, 2016 increased to 37.7%, as compared to 34.2% for the nine months ended September 30, 2015. The increase in gross profit from services primarily reflects change in the mix of service offerings as well as the favorable impact of our cost-savings initiatives.

### Operating Expenses

The amount of each type of operating 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,		
	2016	2015	% Change
U.S. \$ in thousands			
Research and development, net	\$ 73,474	\$ 90,442	-18.8%
Selling, general & administrative	218,340	321,493	-32.1%
Goodwill impairment	-	845,858	-100.0%
Change in fair value of obligations in connection with acquisitions	116	(22,958)	-100.5%
	<u>\$ 291,930</u>	<u>\$ 1,234,835</u>	-76.4%
Percentage of net sales	58.7%	236.3%	

Research and development expenses, net for the nine months ended September 30, 2016 decreased by \$17.0 million, or 18.8%, as compared to the nine months ended September 30, 2015. The decrease was primarily due to non-recurring impairment charges related to certain of our in-process research and development projects that were recorded during the three months ended three months ended September 30, 2015 as well as our costs-savings initiatives.

Research and development expense, net as a percentage of sales decreased to 14.8% in the nine months ended September 30, 2016 as compared to 17.3% in the nine months ended September 30, 2015.

Selling, general and administrative expenses for the nine months ended September 30, 2016 decreased by \$103.2 million, or 32.1%, to \$218.3 million, as compared to \$321.5 million for the nine months ended September 30, 2015. Selling, general and administrative expenses were 43.9% as percentage of net sales for the nine months ended September 30, 2016, as compared to 61.5% for the nine months ended September 30, 2015.

The decrease of our selling, general and administrative expenses was primarily attributed to non-recurring impairment charges of \$45.8 million, that were recorded during the nine months ended September 30, 2015, non-recurring post-merger integration expenses related to SDM formation and certain reorganization related charges that were recorded during 2015 as well as the favorable impact of our costs reduction initiatives which reduced our direct and indirect expenses.

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 note 4 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K. As of September 30, 2016, no goodwill was determined to be impaired.

During the nine months ended September 30, 2016, and 2015, the changes in fair value of obligations in connection with acquisitions resulted in a loss of \$0.1 million and a gain of \$23.0 million, respectively. The changes in fair value of obligations in connection with acquisitions were due to revaluation of the deferred consideration as part of the Solid Concepts transaction. For further information, see note 7 to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.

### Operating Loss

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

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>U.S. \$ in thousands</b>	
Operating loss	\$ (57,548)	\$ (1,185,735)
Percentage of net sales	-11.6%	-226.9%

Operating loss for the nine months ended September 30, 2016 amounted to \$57.5 million compared to operating loss of \$1,185.7 million for the nine months ended September 30, 2015. The decrease in operating loss was primarily attributable to the non-recurring, non-cash intangible assets and goodwill impairment charges in the aggregate amount of \$1,082.3 million, recorded during the first and the third quarters of 2015 and the favorable impact of our costs-savings initiatives, as well as additional factors as described above.

### Financial income (expense), net

Financial income, net amounted to \$1.2 million for the nine months ended September 30, 2016, was primarily comprised of foreign currencies effects and interest income. Financial expense, net amounted to \$9.3 million for the nine months ended September 30, 2015, was primarily comprised of unfavorable impact of foreign currency transactions resulted from changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the Euro) and costs related to the termination of our revolving credit facility during September 2015 which amounted to \$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:

	Nine Months Ended September 30,	
	2016	2015
	U.S. \$ in thousands	
Income taxes (benefit)	\$ 6,283	\$ (54,090)
As a percent of loss before income taxes	-11.2%	4.5%

Income taxes amounted to \$6.3 million, which reflected a negative effective tax rate of 11.2% for the nine months ended September 30, 2016, as compared to an effective tax rate of 4.5% for the nine months ended September 30, 2015. Our effective tax rate has varied significantly due to changes in the mix of taxable income and loss between Israel and the U.S., driven by no tax benefit being recorded for our U.S. subsidiaries tax losses.

Our effective tax rate for the nine months ended September 30, 2015 was impacted by goodwill impairment of \$845.9 million, 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, resulted in a reversal of related deferred tax liabilities amounting to \$80.4 million for the nine months ended September 30, 2015. 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 our deferred tax assets is more likely than not.

On November 2016, our foreign subsidiary received a favorable tax ruling from the tax authorities, as a result, in the fourth quarter of 2016, we will record an income tax benefit of \$7.8 million.

## 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,	
	2016	2015
	U.S. \$ in thousands	
Net loss attributable to Stratasys Ltd.	\$ (62,458)	\$ (1,140,492)
Percentage of net sales	-12.6%	-218.2%
Net loss per diluted share	\$ (1.20)	\$ (22.21)

Net loss attributable to Stratasys Ltd. for the nine months ended September 30, 2016 was \$62.5 million as compared to net loss of \$1,140.5 million for the nine months ended September 30, 2015. The decrease of the net loss attributable to Stratasys Ltd. for the nine months ended September 30, 2016, was due to the factors that were previously discussed, primarily the non-recurring, non-cash goodwill and other intangible assets impairment charges of \$1,082.3 million related to all of our reporting unit, that were recorded during the nine months ended September 30, 2015, which were partially offset by the changes in revaluation of obligations in connection with acquisitions and higher income taxes.



Diluted net loss per share was \$1.20 for the nine months ended September 30, 2016, compared to diluted net loss per share of \$22.21 for the nine months ended September 30, 2015. In computing our loss per diluted 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 fully diluted share count for the nine months ended September 30, 2016 was 52.2 million, compared to 51.4 million for the nine months ended September 30, 2015.

#### **Supplemental Operating Results on a Non-GAAP Basis**

The following non-GAAP data, which excludes certain items as described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures are useful information for investors and shareholders of our company in gauging our results of operations (x) on an ongoing basis after excluding merger and acquisition related expense and reorganization-related charges, and (y) excluding non-cash items such as stock-based compensation expenses, acquired intangible assets amortization, impairment of goodwill and other long-lived assets, changes in fair value of obligations in connection with acquisitions and the corresponding tax effect of those items, as well as, non-recurring changes of non-cash valuation allowance on deferred tax assets. These non-GAAP adjustments either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the 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 for internal planning and forecasting purposes. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all items indicated above during a period, which may not provide a comparable view of our performance to other companies in our industry. Investors and other readers should consider non-GAAP measures only as supplements to, not as substitutes for or as superior measures to, the measures of financial performance prepared in accordance with U.S. GAAP. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table below.

## Reconciliation of GAAP to Non-GAAP Results of Operations

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

	Three Months Ended September 30,					
	2016	Non-GAAP	2016	2015	Non-GAAP	2015
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (loss) (1)	\$ 73,681	\$ 11,248	\$ 84,929	\$ (79,896)	\$ 165,099	\$ 85,203
Operating income (loss) (1,2)	(19,357)	22,651	3,294	(931,344)	921,361	(9,983)
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(20,827)	20,936	109	(901,273)	901,937	664
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (0.40)	\$ 0.40	\$ 0.00	\$ (17.35)	\$ 17.36	\$ 0.01
(1) Acquired intangible assets amortization expense		10,394			12,317	
Impairment charges of other intangible assets		-			150,973	
Non-cash stock-based compensation expense		680			739	
Reorganization and other related costs		249			914	
Merger and acquisition and other expense		(75)			156	
		11,248			165,099	
(2) Acquired intangible assets amortization expense		3,697			5,832	
Goodwill impairment		-			695,458	
Non-cash stock-based compensation expense		4,105			4,097	
Impairment charges of other intangible assets		-			42,215	
Change in fair value of obligations in connection with acquisitions		(24)			(3,022)	
Reorganization and other related costs		1,959			834	
Merger and acquisition and other expense		1,666			10,838	
		11,403			756,252	
		22,651			921,351	
(3) Credit facility termination related costs		-			2,705	
Corresponding tax effect and other tax adjustments		(1,998)			(22,119)	
Amortization expense of associated company		283			-	
		\$ 20,936			\$ 901,937	
(4) Weighted average number of ordinary shares outstanding-Diluted	52,432		53,168	51,941		53,108

	Nine Months Ended September 30,					
	2016	Non-GAAP	2016	2015	Non-GAAP	2015
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	\$ 234,382	\$ 39,241	273,623	\$ 49,100	\$ 229,236	\$ 278,336
Operating income (loss) (1,2)	(57,548)	74,996	17,448	(1,185,735)	1,178,650	(7,085)
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(62,458)	69,401	6,943	(1,140,492)	1,151,142	10,650
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (1.20)	\$ 1.33	\$ 0.13	(22.21)	22.41	0.20
(1) Acquired intangible assets amortization expense		31,318			39,523	
Impairment of other intangible assets		1,779			180,755	
Non-cash stock-based compensation expense		2,132			4,369	
Reorganization and other related costs		3,570			3,426	
Merger and acquisition and other expense		442			1,163	
		<u>39,241</u>			<u>229,236</u>	
(2) Acquired intangible assets amortization expense		11,079			17,972	
Goodwill impairment		-			845,858	
Impairment of other intangible assets		-			55,638	
Non-cash stock-based compensation expense		13,755			19,791	
Change in fair value of obligations in connection with acquisitions		116			(22,958)	
Reorganization and other related costs		3,420			7,590	
Merger and acquisition and other expense		7,385			25,523	
		<u>35,755</u>			<u>949,414</u>	
		<u>74,996</u>			<u>1,178,650</u>	
(3) Credit facility termination related costs		-			2,705	
Corresponding tax effect and other tax adjustments		(5,878)			(30,213)	
Amortization expense of associated company		283			-	
		<u>\$ 69,401</u>			<u>\$ 1,151,142</u>	
(4) Weighted average number of ordinary shares outstanding-Diluted	52,232		53,182	51,437		52,715

## Liquidity and Capital Resources

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

	Nine Months Ended September 30,	
	2016	2015
	U.S. \$ in thousands	
Net loss	\$ (62,797)	\$ (1,140,985)
Goodwill impairment	-	845,858
Impairment of other intangible assets	1,779	236,393
Depreciation and amortization	69,743	83,887
Deferred income taxes	(6,207)	(61,208)
Stock-based compensation	15,886	24,160
Change in fair value of obligations in connection with acquisitions	116	(22,958)
Foreign currency transactions loss and other non-cash items	(2,554)	7,105
Change in working capital and other items	20,053	(1,889)
Net cash provided by (used in) operating activities	36,019	(29,637)
Net cash used in investing activities	(54,809)	(111,803)
Net cash used in financing activities	(569)	(66,494)
Effect of exchange rate changes on cash	1,112	(1,988)
Net change in cash and cash equivalents	(18,247)	(209,922)
Cash and cash equivalents, beginning of period	257,592	442,141
Cash and cash equivalents, end of period	\$ 239,345	\$ 232,219

Our cash and cash equivalents balance decreased to \$239.3 million at September 30, 2016 from \$257.6 million at December 31, 2015. The decrease in cash and cash equivalents in the nine months ended September 30, 2016 was primarily due to net cash used in investing activities in an amount of \$54.8 million, partially offset by net cash provided by operating activities of \$36.0 million.

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.

### *Cash flows from operating activities*

We generated \$36.0 million of cash from operating activities during the nine months ended September 30, 2016. The net loss of \$62.8 million was adjusted due to non-cash charges such as depreciation and amortization of \$69.7 million, stock-based compensation expense of \$15.9 million. Changes in working capital items that favorably affected our cash flow provided by operating activities were primarily attributable to decrease in accounts receivable of \$15.2 million. The changes in working capital reflect the improvement in our proactive procedures of working capital management.

During the nine months ended September 30, 2015, we used cash from operating activities of \$29.6 million. The net loss of \$1,141.0 million was adjusted due to non-cash charges for impairment of goodwill and other intangible assets of \$1,082.3 million, depreciation and amortization of \$83.9 million, stock-based compensation expense of \$24.2 million and foreign currency transactions loss of \$7.1 million. Changes in deferred income taxes of \$61.2 million and non-cash changes in the fair value of obligations in connections with acquisitions of \$23.0 million unfavorably affected cash from operating activities.

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

We used cash of \$54.8 million in our investing activities during the nine months ended September 30, 2016. Cash was primarily used to invest \$31.7 million to purchase property and equipment and for certain strategic investments in unconsolidated entities.

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

During the nine months ended September 30, 2015, we used cash of \$111.8 million. 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.

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

Net cash used in our financing activities during the nine months ended September 30, 2016 was \$0.6 million. Cash used by financing activities was mainly attributed to finance our payments for obligations in connection with acquisitions and was partially offset by proceeds of \$0.8 million from the exercise of stock options.

Net cash used in our financing activities during the nine months ended September 30, 2015 was \$ 66.5 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.

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

Our total current assets amounted to \$514.9 million as of September 30, 2016, of which \$239.3 million consisted of cash and cash equivalents. Total current liabilities amounted to \$162.7 million. Most of our cash and cash equivalents and short-term bank deposits are held in banks in Israel, Switzerland and the U.S., with only minor amounts subject to any restrictions on movement of balances within our company and our subsidiaries.

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

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

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

### **Critical Accounting Policies**

We have prepared our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America. This has required us to make estimates, judgments, and assumptions that affected the amounts we reported. Actual results may differ from those estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in our 2015 Annual Report. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances.

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

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

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

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

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

- the extent of our success at introducing new or improved products and solutions that gain market share;
- the extent of growth of the 3D printing market generally;
- impairments of goodwill or other intangible assets in respect of companies that we acquire;
- changes in our overall strategy, such as related to our cost reduction/ reorganization activities and our capital expenditures;
- the extent of our success at efficiently and successfully integrating the operations of various companies that we have acquired or may acquire;
- the impact of shifts in prices or margins of the products that we sell or services we provide;
- the impact of competition and new technologies;
- global market, political and economic conditions, and in the countries in which we operate in particular;
- government regulations and approvals;
- litigation and regulatory proceedings;
- infringement of our intellectual property rights by others (including for replication and sale of consumables for use in our systems), or infringement of others’ intellectual property rights by us;
- the extent of our success at maintaining our liquidity and financing our operations and capital needs;
- impact of tax regulations on our results of operations and financial condition; and
- those factors referred to in Item 3.D “Key Information - Risk Factors”, Item 4, “Information on the Company”, and Item 5, “Operating and Financial Review and Prospects” in our 2015 Annual Report, as well as in the 2015 Annual Report generally.

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2015 Annual Report, and in our other reports filed with or furnished to the SEC, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT RISK**

Reference is made to Item 11 “Quantitative and Qualitative Disclosures about Market Risk” in our 2015 Annual Report.

#### **LEGAL PROCEEDINGS**

We are subject to various litigation and other legal proceedings. For a discussion of certain of these matters that we deem to be material to our company, see Note 10-“Contingencies” in the notes to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.