

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16  
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of May 2019

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**

**1 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 statement on Form S-8, SEC file number 333-190963, filed by the Registrant with the SEC on September 3, 2013, and shall be a part thereof from the date on which this Form 6-K is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

## CONTENTS

On May 2, 2019, Stratasys Ltd., or Stratasys, released its financial results for the three months ended March 31, 2019.

Attached hereto as [Exhibit 99.1](#) are the unaudited, condensed consolidated financial statements of Stratasys for the three months ended March 31, 2019 (including the notes thereto) (the "[Q1 2019 Financial Statements](#)").

Attached hereto as [Exhibit 99.2](#) is Stratasys' review of its results of operations and financial condition for the three months ended March 31, 2019, including the following:

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

Attached hereto as [Exhibit 101](#) are the Q1 2019 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: May 2, 2019

**STRATASYS LTD.**

By: /s/ Lilach Payorski

Name: Lilach Payorski

Title: Chief Financial Officer

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**STRATASYS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED**  
**MARCH 31, 2019**  
**(UNAUDITED)**

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FOR THE THREE MONTHS ENDED MARCH 31, 2019  
(UNAUDITED)**

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

**Consolidated Balance Sheets**

(in thousands, except share data)

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 367,843	\$ 393,167
Accounts receivable, net	128,420	138,146
Inventories	131,731	123,524
Net investment in sales-type leases	2,193	2,658
Prepaid expenses	7,750	6,398
Other current assets	21,023	20,278
Total current assets	<u>658,960</u>	<u>684,171</u>
<b>Non-current assets</b>		
Net investment in sales-type leases - long-term	965	1,552
Property, plant and equipment, net	188,255	188,150
Goodwill	385,612	385,849
Other intangible assets, net	101,486	107,274
Operating lease right-of-use assets	27,408	-
Other non-current assets	22,456	21,258
Total non-current assets	<u>726,182</u>	<u>704,083</u>
<b>Total assets</b>	<b>\$ 1,385,142</b>	<b>\$ 1,388,254</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 43,033	\$ 45,855
Current portion of long-term debt	-	5,143
Accrued expenses and other current liabilities	29,831	39,115
Accrued compensation and related benefits	35,516	31,703
Deferred revenues	53,997	53,965
Operating lease liabilities - short term	9,439	-
Total current liabilities	<u>171,816</u>	<u>175,781</u>
<b>Non-current liabilities</b>		
Long-term debt	-	22,000
Deferred tax liabilities	1,391	1,662
Deferred revenues - long-term	17,307	18,422
Operating lease liabilities - long term	18,481	-
Other non-current liabilities	28,474	27,422
Total non-current liabilities	<u>65,653</u>	<u>69,506</u>
<b>Total liabilities</b>	<b>\$ 237,469</b>	<b>\$ 245,287</b>
Contingencies (see note 11)		
<b>Redeemable non-controlling interests</b>	<b>809</b>	<b>852</b>
<b>Equity</b>		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousands shares; 54,048 thousands shares and 53,881 thousands shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	146	146
Additional paid-in capital	2,687,499	2,681,048
Accumulated other comprehensive loss	(7,185)	(7,753)
Accumulated deficit	(1,533,596)	(1,531,326)
Total equity	<u>1,146,864</u>	<u>1,142,115</u>
<b>Total liabilities and equity</b>	<b>\$ 1,385,142</b>	<b>\$ 1,388,254</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 March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Net sales</b>		
Products	\$ 105,091	\$ 103,917
Services	50,209	49,916
	<u>155,300</u>	<u>153,833</u>
<b>Cost of sales</b>		
Products	44,169	45,218
Services	34,674	32,965
	<u>78,843</u>	<u>78,183</u>
<b>Gross profit</b>	<u>76,457</u>	<u>75,650</u>
<b>Operating expenses</b>		
Research and development, net	22,574	25,110
Selling, general and administrative	57,154	57,005
	<u>79,728</u>	<u>82,115</u>
<b>Operating loss</b>	(3,271)	(6,465)
<b>Financial income, net</b>	<u>753</u>	<u>8</u>
<b>Loss before income taxes</b>	(2,518)	(6,457)
Income tax expenses	1,218	601
Share in profits (losses) of associated companies	<u>1,423</u>	<u>(6,073)</u>
<b>Net loss</b>	\$ (2,313)	\$ (13,131)
Net loss attributable to non-controlling interests	<u>(43)</u>	<u>(90)</u>
Net loss attributable to Stratasys Ltd.	<u>\$ (2,270)</u>	<u>\$ (13,041)</u>
<b>Net loss per ordinary share attributable to Stratasys Ltd. -basic and diluted</b>	\$ (0.04)	\$ (0.24)
<b>Weighted average ordinary shares outstanding - basic and diluted</b>	53,966	53,657
<b>Comprehensive loss</b>		
Net loss	(2,313)	(13,131)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(427)	2,011
Unrealized gains (losses) on derivatives designated as cash flow hedges	995	(325)
Other comprehensive income, net of tax	<u>568</u>	<u>1,686</u>
Comprehensive loss	(1,745)	(11,445)
Less: comprehensive loss attributable to non-controlling interests	<u>(43)</u>	<u>(90)</u>
<b>Comprehensive loss attributable to Stratasys Ltd.</b>	<u>\$ (1,702)</u>	<u>\$ (11,355)</u>

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

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

**Consolidated Statements of Changes in Equity**

(in thousands )

**Three Months Ended March 31, 2019 and 2018**

	Ordinary Shares		Additional Paid-In Capital	Retained Earnings (accumulated deficit)	Accumulated Other Comprehensive Loss	Equity attributable to Stratasys Ltd.	Non-controlling Interests	Total Equity
	Number of shares	Par Value						
<b>Balance as of December 31, 2018</b>	53,881	146	2,681,048	(1,531,326)	(7,753)	1,142,115	-	1,142,115
<b>Issuance of shares in connection with stock-based compensation plans</b>	167	*	2,222	-	-	2,222	-	2,222
<b>Stock-based compensation</b>	-	-	4,229	-	-	4,229	-	4,229
<b>Comprehensive loss</b>	-	-	-	(2,270)	568	(1,702)	-	(1,702)
<b>Balance as of March 31, 2019</b>	54,048	\$ 146	\$ 2,687,499	\$ (1,533,596)	\$ (7,185)	\$ 1,146,864	\$ -	\$ 1,146,864
	Number of shares	Par Value	Additional Paid-In Capital	Retained Earnings (accumulated deficit)	Accumulated Other Comprehensive Loss	Equity attributable to Stratasys Ltd.	Non-controlling Interests	Total Equity
<b>Balance as of December 31, 2017</b>	53,631	145	2,663,274	(1,523,906)	(7,023)	1,132,490	17	1,132,507
<b>Cumulative effect of changes in accounting principles</b>	-	-	-	3,544	-	3,544	-	3,544
<b>Issuance of shares in connection with stock-based compensation plans</b>	79	*	334	-	-	334	-	334
<b>Stock-based compensation</b>	-	-	3,415	-	-	3,415	-	3,415
<b>Comprehensive loss</b>	-	-	-	(13,041)	1,686	(11,355)	(34)	(11,389)
<b>Balance as of March 31, 2018</b>	53,710	\$ 145	\$ 2,667,023	\$ (1,533,403)	\$ (5,337)	\$ 1,128,428	\$ (17)	\$ 1,128,411

\* Represents an amount less than 0.5 thousand



STRATASYS LTD.  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Consolidated Statements of Cash Flows

<i>in thousands</i>	Three Months Ended March 31,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net loss	\$ (2,313)	\$ (13,131)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	12,700	15,372
Stock-based compensation	4,229	3,415
Foreign currency transaction gain	(210)	(1,678)
Deferred income taxes	(685)	(922)
Share in (profits) losses of associated companies	(1,423)	6,073
Other non-cash items, net	1,018	709
Change in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	9,124	13,990
Inventories	(9,598)	(3,573)
Net investment in sales-type leases	1,052	2,244
Other current assets and prepaid expenses	(2,133)	266
Other non-current assets	(219)	(304)
Accounts payable	(2,805)	981
Other current liabilities	(5,172)	4,110
Deferred revenues	(781)	1,594
Other non-current liabilities	1,820	(2,094)
<b>Net cash provided by operating activities</b>	<b>4,604</b>	<b>27,052</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(6,114)	(7,607)
Investment in unconsolidated entities	-	(5,000)
Purchase of intangible assets	(310)	(271)
Proceeds from sale of plant and property	118	3,770
Other investing activities	577	(162)
<b>Net cash used in investing activities</b>	<b>(5,729)</b>	<b>(9,270)</b>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(27,293)	(1,286)
Proceeds from exercise of stock options	2,222	1,002
<b>Net cash used in financing activities</b>	<b>(25,071)</b>	<b>(284)</b>
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>	<b>878</b>	<b>296</b>
<b>Net change in cash, cash equivalents and restricted cash</b>	<b>(25,318)</b>	<b>17,794</b>
<b>Cash, cash equivalents and restricted cash, beginning of period</b>	<b>393,734</b>	<b>329,359</b>
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>\$ 368,416</b>	<b>\$ 347,153</b>
<b>Supplemental disclosures of cash flow information:</b>		
Transfer of fixed assets to inventory	97	109
Transfer of inventory to fixed assets	1,028	320

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

**Note 1. Business Description and Basis of Presentation**

Stratasys Ltd. (collectively with its subsidiaries, the “Company”) is a global provider of applied additive technology solutions for a broad range of industries. The Company focuses on customers’ business requirements and seeks to create new value for its customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. The Company operates a 3D printing ecosystem of solutions and expertise, comprised of: 3D printers ranging from entry-level desktop 3D printers to systems for rapid prototyping (“RP”) and large production systems for direct digital manufacturing (“DDM”) based on precise fused deposition modeling (“FDM”) and PolyJet technologies; advanced materials for use with its 3D printers; software with voxel level control; application-based services; on-demand parts; and key partnerships.

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

The consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. The results of operations for the three months ended March 31, 2019 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 Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission (the “SEC”) as part of the Company’s Annual Report on Form 20-F for such year on March 7, 2019.

**Note 2. New Accounting Pronouncements**

*Accounting Pronouncements Adopted in the Current Period*

In June 2018, the Financial Accounting Standards Board (“FASB”) issued a new Accounting Standards Update (“ASU”) which substantially aligns the measurement and classification guidance for share-based payments to non-employees with the guidance for share-based payments to employees. That ASU also clarifies that any share-based payment issued to a customer should be evaluated based upon the new revenue recognition standard. The new ASU required a modified retrospective transition approach. The Company adopted this guidance effective January 1, 2019, which has not had a material impact on its consolidated financial statements.

In August 2017, the FASB issued an ASU which simplifies the designation and measurement requirements of hedge accounting in certain situations and allows companies to better align their hedge accounting with their risk management activities. The ASU also eases certain hedge effectiveness assessment requirements, expands the eligibility of hedging strategies that may qualify for hedge accounting and modifies certain presentation and disclosure requirements. The Company adopted this guidance effective January 1, 2019, which has not had a material impact on its consolidated financial statements.

In February 2016, the FASB issued a new ASU which amended its lease accounting guidance. Under the new lease accounting guidance, lessees are required to recognize a right-of-use asset and a lease liability for all leases, including leases classified as operating leases. The lease liability and the right-of-use asset are measured based on the present value of the lease payments. In addition, disclosures of qualitative and quantitative information about leasing arrangements are required. The new lease accounting guidance also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non-lease components of an arrangement.

The Company adopted the new lease accounting guidance on January 1, 2019, using a modified retrospective transition approach, with certain practical expedients, and as a result did not adjust prior periods. Following the adoption, the Company recognized right-of-use assets of \$27.4 million and lease liabilities of \$27.9 million for its operating leases. The Company does not have material finance leases. The new lease accounting guidance had no material impact on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss and no material impact on the Condensed Consolidated Statements of Cash Flows.

The Company determines whether an arrangement contains a lease at the inception of a contract. If an arrangement is a lease, the Company determines whether it is an operating lease or a finance lease. The Company’s lease terms include all non-cancelable periods and may include options to extend the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term. All leases with a lease term greater than twelve months result in the recognition of a right-of-use asset and a corresponding lease liability.

The right-of-use assets represent the Company’s right to control the use of an underlying asset for the lease term. The lease liabilities represent the present value of the Company's future lease payments over the expected lease term, which is determined using the Company's incremental borrowing rate at the lease commencement date. This rate is determined considering factors such as the lease term, credit standing and the economic environment of the location of the lease.

The Company's leases primarily relate to buildings for the Company’s administrative, research and development, sales and marketing, and manufacturing activities, as well as vehicles leases.

As of March 31, 2019, the weighted average remaining lease term for the Company’s leases was 3.9 years, and weighted-average discount rate was 5.1%.

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

*Recently Issued Accounting Pronouncements Not Yet Adopted*

In August 2018, the FASB issued an ASU that clarifies the accounting for implementation costs in cloud computing arrangements. This ASU requires the implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customers in a software licensing arrangement. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of the new guidance on its consolidated financial statements.

In June 2016, the FASB issued an ASU that supersedes the existing impairment model for most financial assets to a current expected credit loss model. The new guidance requires an entity to recognize an impairment allowance equal to its current estimate of all contractual cash flows the entity does not expect to collect. The ASU also requires that credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new guidance on its consolidated financial statements.

**Note 3. Revenues**

Disaggregation of Revenues

The following table presents the Company's revenues disaggregated by geographical region (based on the Company's customers' locations) and revenue type for the three months ended March 31, 2019 and 2018:

	March 31,	
	2019	2018
	(U.S. \$ in thousands)	
<b>Americas</b>		
Products	\$ 58,054	\$ 50,244
Service	38,444	37,670
<b>Total Americas</b>	<b>96,498</b>	<b>87,914</b>
<b>EMEA</b>		
Products	28,085	31,981
Service	6,698	6,990
<b>Total EMEA</b>	<b>34,783</b>	<b>38,971</b>
<b>Asia Pacific</b>		
Products	18,952	21,692
Service	5,067	5,256
<b>Total Asia Pacific</b>	<b>24,019</b>	<b>26,948</b>
<b>Total Revenues</b>	<b>\$ 155,300</b>	<b>\$ 153,833</b>

The following table presents the Company's revenues disaggregated based on the timing of revenue recognized for the three months ended March 31, 2019 and 2018:

	March 31,	
	2019	2018
	(U.S. \$ in thousands)	
<b>Revenues recognized in point in time from:</b>		
Products	\$ 105,091	\$ 103,917
Services	31,435	30,882
<b>Total revenues recognized in point in time</b>	<b>136,526</b>	<b>134,799</b>
<b>Revenues recognized over time from:</b>		
Services	18,774	19,034
<b>Total revenues recognized over time</b>	<b>18,774</b>	<b>19,034</b>
<b>Total Revenues</b>	<b>\$ 155,300</b>	<b>\$ 153,833</b>

**STRATASYS LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Contract Assets and Contract Liabilities

Contract assets are recorded when the Company's right to consideration is conditional on constraints other than the passage of time. The Company had no material contract assets as of March 31, 2019.

Contract liabilities include advance payments and billings in excess of revenue recognized, which are primarily related to advanced billings for service type warranty. Contract liabilities are presented under deferred revenues. The Company's deferred revenues as of March 31, 2019 and December 31, 2018 were as follows:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	<b>U.S. \$ in thousands</b>	
Deferred revenue*	71,304	72,387

\* Includes \$17.3 million and \$18.4 million under long term deferred revenue in the Company's consolidated balance sheets as of March 31, 2019 and December 31, 2018, respectively.

Revenue recognized in the first quarter of 2019 that was included in deferred revenue balance as of January 1, 2019 was \$17.8 million.

Remaining Performance Obligations

Remaining Performance Obligations ("RPO") represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of March 31, 2019, the total RPO amounted to \$92.2 million. The Company expects to recognize \$74.0 million of this RPO during the next 12 months, \$12.0 million over the subsequent 12 months and the remainder thereafter.

Incremental Costs of Obtaining a Contract

Sales commissions earned mainly by the Company's sales agents are considered incremental costs of obtaining a contract with a customer, as the Company expects the benefit of those commissions to be longer than one year. The majority of the sales commissions are not subject to capitalization, as the commission expense is recognized as the related revenue is recognized. Sales commissions for initial contracts related to the service type warranty are deferred and then amortized on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. Amortization expense is included in selling, general and administrative expenses in the consolidated statements of operations. As of March 31, 2019, the deferred commission amounted to \$3.3 million.

**Note 4. Inventories**

Inventories consisted of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	<b>U.S. \$ in thousands</b>	
Finished goods	\$ 66,184	\$ 61,391
Work-in-process	2,437	2,616
Raw materials	63,110	59,517
	<u>131,731</u>	<u>123,524</u>

**Note 5. Goodwill and Other Intangible Assets**

*Goodwill*

Changes in the carrying amount of the Company's goodwill for the three-months ended March 31, 2019 were as follows:

	<b>U.S. \$ in millions</b>	
Goodwill as of January 1, 2019	\$	385.8
Translation differences		(0.2)
Goodwill as of March 31, 2019	<u>\$</u>	<u>385.6</u>

During the fourth quarter of 2018, the Company performed a quantitative assessment for goodwill impairment for its Stratasys-Objet reporting unit.

Following its quantitative assessment, the Company concluded that the fair value of its Stratasys-Objet reporting unit exceeded its carrying amount by approximately 8%, with a carrying amount of goodwill assigned to this reporting unit in an amount of \$386 million.

When evaluating the fair value of its Stratasys-Objet reporting unit the Company used a discounted cash flow model which utilized Level 3 measures that represent unobservable inputs into the valuation method. Key assumptions used to determine the estimated fair value include: (a) expected cash flows for five years following the assessment date which were based on, among other factors, expected revenue growth, costs to produce, operating profit margins and estimated capital needs; (b) an estimated terminal value that utilized a terminal year growth rate of 3.1% that was determined based on the growth prospects of the reporting unit; and (c) a discount rate of 14.0% based on management's best estimate of the after-tax weighted average cost of capital. If any of these were to vary materially from the Company's estimates, the Company could face impairment of goodwill allocated to this reporting unit in the future.

Actual results may differ from those assumed in the Company's valuation method. It is reasonably possible that the Company's assumptions described above could change in future periods. If any of these were to vary materially from the Company's plans, it may record impairment of goodwill allocated to this reporting unit in the future.

A hypothetical decrease in the growth rate of 1% or an increase of 1% to the discount rate would have reduced the fair value of Stratasys-Objet reporting unit by approximately \$48 million and \$80 million, respectively.

Based on the Company's assessment as of December 31, 2018, no goodwill was determined to be impaired.

During the first quarter of 2019 the Company reaffirmed that no significant events or circumstances occurred that contradict the assumptions and data used in the annual impairment test performed in the fourth quarter of 2018.

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

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

*Other Intangible Assets*

Other intangible assets consisted of the following:

	March 31, 2019			December 31, 2018		
	Carrying Amount,		Net	Carrying Amount,		Net
	Net of Impairment	Accumulated Amortization	Book Value	Net of Impairment	Accumulated Amortization	Book Value
	U.S. \$ in thousands					
Developed technology	\$ 299,100	\$ (240,316)	\$ 58,784	\$ 299,100	\$ (236,375)	\$ 62,725
Patents	10,483	(5,960)	4,523	10,127	(5,752)	4,375
Trademarks and trade names	26,224	(20,404)	5,820	26,212	(19,067)	7,145
Customer relationships	102,914	(70,868)	32,046	102,984	(70,353)	32,631
Capitalized software development costs	19,541	(19,228)	313	19,540	(19,142)	398
	<u>\$ 458,262</u>	<u>\$ (356,776)</u>	<u>\$ 101,486</u>	<u>\$ 457,963</u>	<u>\$ (350,689)</u>	<u>\$ 107,274</u>

Amortization expense relating to intangible assets for the three-month periods ended March 31, 2019 and 2018 was approximately \$6.1 million and \$8.1 million, respectively.

As of March 31, 2019, the estimated amortization expense relating to intangible assets currently subject to amortization for each of the following periods was as follows:

	<b>Estimated amortization expense (U.S. \$ in thousands)</b>
Remaining 9 months of 2019	\$ 18,124
2020	23,933
2021	23,772
2022	23,678
2023	6,698
Thereafter	5,281
Total	<u>\$ 101,486</u>

**Note 6. Loss Per Share**

The following table presents the numerator and denominator of the basic and diluted net loss per share computations for the three months ended March 31, 2019 and 2018:

	<b>Three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>In thousands, except per share amounts</b>		
<b>Numerator:</b>		
Net loss attributable to Stratasys Ltd. for basic and diluted loss per share	\$ (2,270)	\$ (13,041)
<b>Denominator:</b>		
Weighted average shares – denominator for basic and diluted net loss per share	53,966	53,657
<b>Net loss per share attributable to Stratasys Ltd.</b>		
Basic	\$ (0.04)	\$ (0.24)
Diluted	\$ (0.04)	\$ (0.24)

The computation of diluted net loss per share excluded share awards of 5.1 million shares and 3.3 million shares for the three months ended March 31, 2019 and 2018, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

**Note 7. Income Taxes**

The Company had a negative effective tax rate of 48.4% for the three-month period ended March 31, 2019 compared to a negative effective tax rate of 9.3% for the three-month period ended March 31, 2018. The Company's effective tax rate was primarily impacted by different geographic mixes of earnings and losses, as well as a valuation allowance on losses of the Company's US subsidiaries.

**Note 8. 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.



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*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, in its consolidated balance sheets:

	<u>March 31, 2019</u>		<u>December 31, 2018</u>
	(U.S. \$ in thousands)		
<b>Assets:</b>			
Foreign exchange forward contracts not designated as hedging instruments	\$ 445	\$	374
Foreign exchange forward contracts designated as hedging instruments	377		-
<b>Liabilities:</b>			
Foreign exchange forward contracts not designated as hedging instruments	(319)		(196)
Foreign exchange forward contracts designated as hedging instruments	(9)		(628)
	<u>\$ 494</u>	<u>\$</u>	<u>(450)</u>

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

Other financial instruments consist mainly of cash and cash equivalents, current and non-current receivables, net investment in sales-typeleases, accounts payable and other financial commitments. The fair value of these financial instruments approximates their carrying values.

**Note 9. Derivative instruments and hedging activities**

The Company conducts its operations globally and may be exposed to global market risks and to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign currency exchange rates. As part of the Company's risk management strategy, the Company enters into transactions involving foreign currency exchange derivative financial instruments. For its non-hedging transactions, the Company manages its foreign currency exposures on a consolidated basis, which allows the Company to net exposures and take advantage of any natural hedging. The transactions are designed to manage the Company's net exposure to foreign currency exchange rates and to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates.

The Company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and forecasted transactions denominated in the New Israeli Shekel ("NIS"), the Euro and the Japanese Yen. The gains and losses on the hedging instruments partially offset losses and gains on the hedged items. Financial markets and currency volatility may limit the Company's ability to hedge these exposures. The Company does not enter into derivative transactions for trading purposes.

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

	Balance sheet location	Fair Value		Notional Amount	
		March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 445	\$ 374	\$ 82,946	\$ 34,695
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	377	-	26,715	-
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(319)	(196)	11,616	54,425
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	Accrued expenses and other current liabilities	(9)	(628)	4,208	41,303
		<u>\$ 494</u>	<u>\$ (450)</u>	<u>\$ 125,485</u>	<u>\$ 130,423</u>

As of March 31, 2019, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$94.6 million, and were used to reduce foreign currency exposures related to the Euro, the NIS, Japanese Yen, Korean Won and Chinese Yuan. With respect to such derivatives, gain of \$1.2 million and a loss of \$2.3 million were recognized under financial income, net for the three-month periods ended March 31, 2019 and 2018, respectively. Such losses or gains partially offset the foreign currencies revaluation changes of the balance sheet items. These foreign currencies revaluation changes are also recognized under financial income, net.

As of March 31, 2019, the Company had in effect foreign exchange forward contracts, designated as cash flow hedge for accounting purposes, for the conversion of \$30.9 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 and related costs denominated in NIS. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss. These contracts mature through December 2019.

**Note 10. Equity**

**a. Stock-based compensation plans**

Stock-based compensation expenses for equity-classified stock options, restricted share units ("RSUs") and performance stock units ("PSUs") were allocated as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>U.S. \$ in thousands</b>	
Cost of sales	\$ 354	\$ 387
Research and development, net	759	742
Selling, general and administrative	3,116	2,286
Total stock-based compensation expenses	<u>\$ 4,229</u>	<u>\$ 3,415</u>

A summary of the Company's stock option activity for the three months ended March 31, 2019 is as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Options outstanding as of January 1, 2019	2,551,743	\$ 30.82
Exercised	(109,345)	20.32
Forfeited	(113,403)	25.81
Options outstanding as of March 31, 2019	<u>2,328,995</u>	<u>\$ 31.56</u>
Options exercisable as of March 31, 2019	<u>1,550,336</u>	<u>\$ 36.93</u>

During the three-month periods ended March 31, 2019 and 2018, the Company issued 109,345 shares and 17,402 shares, respectively, upon the exercise of stock options. This resulted in an increase in equity of \$2.2 million and \$0.3 million for the three-month periods ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, the unrecognized compensation cost of \$7.8 million related to all unvested, equity-classified stock options is expected to be recognized as an expense over a weighted-average period of 1.8 years.

A summary of the Company's RSUs and PSUs activity for the three months ended March 31, 2019 is as follows:

	<b>Number of RSUs and PSUs</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested as of January 1, 2019	1,422,887	\$ 20.17
Granted	1,511,632	26.65
Forfeited	(61,500)	21.73
Vested	(43,036)	21.06
Unvested as of March 31, 2019	<u>2,829,983</u>	<u>\$ 23.58</u>

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The fair value of RSUs and PSUs is determined based on the quoted price of the Company's ordinary shares on the date of the grant.

As of March 31, 2019, the unrecognized compensation cost of \$59.0 million related to all unvested, equity-classified RSUs and PSUs is expected to be recognized as expense over a weighted-average period of 3.2 years.

**b. Accumulated other comprehensive loss**

The following tables present the changes in the components of accumulated other comprehensive income (loss), net of taxes, for the three months ended March 31, 2019 and 2018, respectively:

	<b>Three months ended March 31, 2019</b>		
	<b>Net unrealized gain (loss) on cash flow hedges</b>	<b>Foreign currency translation adjustments</b>	<b>Total</b>
	<b>U.S. \$ in thousands</b>		
Balance as of January 1, 2019	\$ (627)	\$ (7,126)	\$ (7,753)
Other comprehensive income (loss) before reclassifications	1,011	(427)	584
Amounts reclassified from accumulated other comprehensive loss	(16)	-	(16)
Other comprehensive income (loss)	995	(427)	568
Balance as of March 31, 2019	\$ 368	\$ (7,553)	\$ (7,185)

	<b>Three months ended March 31, 2018</b>		
	<b>Net unrealized gain (loss) on cash flow Hedges</b>	<b>Foreign currency translation adjustments</b>	<b>Total</b>
	<b>U.S. \$ in thousands</b>		
Balance as of January 1, 2018	\$ 330	\$ (7,353)	\$ (7,023)
Other comprehensive income (loss) before reclassifications	(90)	2,011	1,921
Amounts reclassified from accumulated other comprehensive loss	(235)	-	(235)
Other comprehensive income	(325)	2,011	1,686
Balance as of March 31, 2018	\$ 5	\$ (5,342)	\$ (5,337)

**Note 11. Contingencies**

*Patent Law-Based Claim*

On November 23, 2017, a former employee, whose employment had been terminated by the Company in 2008 and who had previously unsuccessfully filed a suit against the Company, brought an additional proceeding against the Company under Section 134 of the Israeli Patent Law seeking compensation and royalties for service inventions he invented while he served as an employee of the Company. In this new proceeding, the former employee claims to be entitled to receive royalties in an amount equal to: (a) 20% of the benefits, revenues and /or savings generated by the Company in the past and in the future, including the rise in the value of the Company, as determined in the merger with Stratasys Inc., which took place in December 2012; (b) 20% of the gross profit generated by the Company in the past and 9% of the gross profit produced and that will be produced by the Company; (c) 20% of the gross profit generated by the Company in the past and the relative share of the former Objet entity of the Company in the total gross profit produced and that will be produced by the Company; or (d) 20% of the value of the service inventions at issue. The former employee further sought an order of accounts. The Company rejects the claims that serve as a basis for the proceeding and is defending against them vigorously.

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

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes included as Exhibit 99.1 to the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review and Prospects is attached, or the Form 6-K. The discussion below contains forward-looking statements (within the meaning of the United States federal securities laws) that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Forward-Looking Statements and Factors that May Affect Future Results of Operations", below, as well in the "Risk Factors" in Item 3.D of our Annual Report on Form 20-F for the year ended December 31, 2018, or our 2018 Annual Report.*

**Overview of Business and Trend Information**

We are a leading global provider of applied additive technology solutions for industries including aerospace, automotive, healthcare, consumer products and education. We focus on customers' business requirements and seek to create new value for our customers across their product lifecycle processes, from design prototypes to manufacturing tools and final production parts. We operate a 3D printing ecosystem of solutions and expertise, comprised of advanced materials; software with voxel level control; precise, repeatable and reliable fused deposition modeling 3D printers (utilizing proprietary FDM™ technology) and inkjet-based 3D printers (utilizing proprietary PolyJet™ technology); application-based services; on-demand parts and key partnerships. We strive to ensure that our solutions are integrated seamlessly into each customer's evolving workflow. Our applications are industry-specific and geared towards accelerating business processes, optimizing value chains and driving business performance improvements. Our customers range from individuals and smaller businesses to large, global enterprises, and we include a number of Fortune 100 companies among our customers.

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 59 FDM™ cartridge-based materials, 44 PolyJet cartridge-based materials, 158 non-color digital materials, and over 500,000 color variations, is the widest in the industry. Our service offerings include Stratasys Direct Manufacturing printed parts services, as well as our professional services.

We conduct our business globally and provide products and services to our global customer base through our offices in North America and internationally, including: Baden-Baden, Germany; Shanghai, China; and Tokyo, Japan, as well as through our worldwide network of approximately 160 agents and resellers. Additionally, through our MakerBot subsidiary, we deploy an online sales channel. We have approximately 2,300 employees and hold more than 1,400 granted patents or pending patent applications worldwide.

**Summary of Financial Results**

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. In the opinion of our management, all adjustments considered necessary for a fair statement of the unaudited condensed consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual results, on a GAAP basis, for the three months ended March 31, 2019 with the corresponding period in 2018.

## Results of Operations

### Comparison of Three Months Ended March 31, 2019 to Three Months Ended March 31, 2018

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

	Three Months Ended March 31,			
	2019		2018	
	U.S. \$ in thousands	% of Revenues	U.S. \$ in thousands	% of Revenues
Revenues	\$ 155,300	100.0%	\$ 153,833	100.0%
Cost of revenues	78,843	50.8%	78,183	50.8%
Gross profit	76,457	49.2%	75,650	49.2%
Research and development, net	22,574	14.5%	25,110	16.3%
Selling, general and administrative	57,154	36.8%	57,005	37.1%
Operating loss	(3,271)	-2.1%	(6,465)	-4.2%
Financial income, net	753	0.5%	8	0.0%
Loss before income taxes	(2,518)	-1.6%	(6,457)	-4.2%
Income tax expenses	1,218	0.8%	601	0.4%
Share in profits (losses) of associated companies	1,423	0.9%	(6,073)	-3.9%
Net loss attributable to non-controlling interests	(43)	0.0%	(90)	-0.1%
Net loss attributable to Stratasys Ltd.	(2,270)	-1.5%	(13,041)	-8.5%

## Discussion of Results of Operations

### Revenues

Our products and services revenues in the first quarter of each of 2019 and 2018, as well as the percentage change reflected thereby, were as follows:

	Three Months Ended March 31,		
	2019	2018	% Change
	U.S. \$ in thousands		
Products	\$ 105,091	\$ 103,917	1.1%
Services	50,209	49,916	0.6%
	\$ 155,300	\$ 153,833	1.0%

### Products Revenues

Revenues derived from products (including AM systems and consumable materials) increased by \$1.2 million, or 1.1%, for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018. The increase in products revenues was driven by an increase in our consumables revenues and systems revenues, which was partially offset by a decrease due to the divestiture of certain entities and the unfavorable impact of foreign currencies translation.

Systems revenues for the three months ended March 31, 2019 increased by 0.8% as compared to the three months ended March 31, 2018. The increase in systems revenues was driven primarily by increased unit sales in North America, and was partially offset by the impact of the divestiture during the third quarter of 2018 of our former subsidiary Solidscape.

Consumables revenues for the three months ended March 31, 2019 increased by 1.4% as compared to the three months ended March 31, 2018. The increase in consumables revenues reflected the utilization of our installed base of systems, and was partially offset by the impact of the divestiture during the third quarter of 2018 of our former subsidiary Solidscape.

#### *Services Revenues*

Services revenues (including SDM, maintenance contracts, time and materials and other services) increased by \$0.3 million for the three months ended March 31, 2019, or 0.6%, as compared to the three months ended March 31, 2018. Within services revenues, customer support revenue, which includes revenue generated mainly by maintenance contracts on our systems, increased by 1.4%, reflecting the growth in our installed base of systems. The increase in services revenues was partially offset by the unfavorable impact of foreign currencies translation.

#### *Revenues by Region*

Revenues and the percentage of revenues by region for the first quarter of each of 2019 and 2018, as well as the percentage change in revenues in each such region reflected thereby, were as follows:

	<b>Three Months Ended March 31,</b>					<b>% Change</b>
	<b>2019</b>		<b>2018</b>			
	<b>U.S. \$ in thousands</b>	<b>% of Revenues</b>	<b>U.S. \$ in thousands</b>	<b>% of Revenues</b>		
Americas*	\$ 96,498	62.1%	\$ 87,914	57.1%	9.8%	
EMEA	34,783	22.4%	38,971	25.3%	-10.7%	
Asia Pacific	24,019	15.5%	26,948	17.6%	-10.9%	
	<u>\$ 155,300</u>	<u>100.0%</u>	<u>\$ 153,833</u>	<u>100.0%</u>	1.0%	

\* Represent the United States, Canada and Latin America

Revenues in the Americas region increased by \$8.6 million, or 9.8%, to \$96.5 million for the three months ended March 31, 2019, compared to \$87.9 million for the three months ended March 31, 2018. The increase was primarily driven by higher systems and consumables revenues.

Revenues in the EMEA region decreased by \$4.2 million, or 10.7%, to \$34.8 million for the three months ended March 31, 2019, compared to \$39.0 million for the three months ended March 31, 2018. The decrease was primarily driven by the impact of the divestiture of our former subsidiary Solidscape and lower systems revenues. On a constant currency basis when using prior period's exchange rates, revenues decreased by \$1.6 million, or 4.2%, reflecting a decrease in systems revenues mainly driven by the impact of the divestiture of our former subsidiary Solidscape, partially offset by an increase in consumables and services revenues.

Revenues in the Asia Pacific region decreased by \$2.9 million, or 10.9%, to \$24.0 million for the three months ended March 31, 2019, compared to \$26.9 million for the three months ended March 31, 2018. The decrease was primarily driven by lower systems revenues.



## Gross Profit

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

	<b>Three Months Ended March 31,</b>		<b>Change in %</b>
	<b>2019</b>	<b>2018</b>	
	<b>U.S. \$ in thousands</b>		
<b>Gross profit attributable to:</b>			
Products	\$ 60,922	\$ 58,699	3.8%
Services	15,535	16,951	-8.4%
	<u>\$ 76,457</u>	<u>\$ 75,650</u>	<u>1.1%</u>

Gross profit as a percentage of revenues for our products and services was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Gross profit as a percentage of revenues from:</b>		
Products	58.0%	56.5%
Services	30.9%	34.0%
Total gross profit	<u>49.2%</u>	<u>49.2%</u>

Gross profit attributable to products revenues increased by \$2.2 million, or 3.8%, to \$60.9 million for the three months ended March 31, 2019, compared to gross profit of \$58.7 million for the three months ended March 31, 2018. Gross profit attributable to products revenues as a percentage of products revenues increased to 58.0% for the three months ended March 31, 2019, compared to gross profit of 56.5% for the three months ended March 31, 2018.

The increase in gross profit attributable to products revenues was primarily driven by product mix, higher revenue volume and lower amortization expense partially offset by the unfavorable impact of foreign currencies translation.

Gross profit attributable to services revenues decreased by \$1.4 million, or 8.4%, to \$15.5 million for the three months ended March 31, 2019, compared to \$17.0 million for the three months ended March 31, 2018. Gross profit attributable to services revenues as a percentage of services revenues in the three months ended March 31, 2019 decreased to 30.9%, as compared to 34.0% for the three months ended March 31, 2018. Our gross profit from services revenues was impacted by the mix of revenue sources, as well as an unfavorable impact of foreign currencies translation.

## Operating Expenses

The amount of each type of operating expense for the first quarter of each of 2019 and 2018, as well as the percentage change reflected thereby, and total operating expenses as a percentage of our total revenues in each such quarter, were as follows:

	<b>Three Months Ended March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>% Change</b>
	<b>U.S. \$ in thousands</b>		
Research and development, net	\$ 22,574	\$ 25,110	-10.1%
Selling, general & administrative	57,154	57,005	0.3%
	<u>\$ 79,728</u>	<u>\$ 82,115</u>	-2.9%
Percentage of revenues	51.3%	53.4%	

Research and development expenses, net decreased by \$2.5 million, or 10.1%, to \$22.6 million for the three months ended March 31, 2019, compared to \$25.1 million for the three months ended March 31, 2018. The amount of research and development expenses constituted 14.5% of our revenues for the three months ended March 31, 2019, as compared to 16.3% for the three months ended March 31, 2018.

Our research and development expenses were impacted by the timing of project spending and product launches and the impact of the divestiture of certain entities. Our research and development expenses, net reflects our commitment to invest in long-term initiatives that include advancements in our core FDM and PolyJet technologies, as well as our new metal additive manufacturing platform, advanced composite materials, and software and application development.

Selling, general and administrative expenses for the three months ended March 31, 2019 were relatively flat as compared to the three months ended March 31, 2018. The amount of selling, general and administrative expenses constituted 36.8% of our revenues for the three months ended March 31, 2019, as compared to 37.1% for the three months ended March 31, 2018.

## Operating Loss

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>U.S. \$ in thousands</b>	
Operating loss	\$ (3,271)	\$ (6,465)
Percentage of revenues	-2.1%	-4.2%

Operating loss amounted to \$3.3 million for the three months ended March 31, 2019, compared to an operating loss of \$6.5 million for the three months ended March 31, 2018. The decrease in operating loss was primarily attributable to lower operating expenses for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, as discussed above.

## Financial Income, net

Financial income, net, which was primarily comprised of foreign currencies effects, interest income and interest expense, was \$0.8 million for the three months ended March 31, 2019, compared to financial income, net of \$0 million for the three months ended March 31, 2018.

## Income Taxes

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

	Three Months Ended		Change in %
	March 31,		
	2019	2018	
	U.S. \$ in thousands		
Income tax expense	\$ 1,218	\$ 601	102.7%
As a percent of loss before income taxes	-48.4%	-9.3%	419.7%

We had a negative effective tax rate of 48.4% for the three-month period ended March 31, 2019, compared to a negative effective tax rate of 9.3% for the three-month period ended March 31, 2018. Our effective tax rate was primarily impacted by different geographic mixes of earnings and losses, as well as a valuation allowance on losses of our US subsidiaries.

## Share in Profits (Losses) of Associated Companies

Share in profit (losses) of associated companies reflects our proportionate share of the earnings of unconsolidated entities accounted for by using the equity method of accounting. During the three months ended March 31, 2019, the profit from our proportionate share of the earnings of our equity method investments was \$1.4 million, compared to a loss of \$6.1 million in the three months ended March 31, 2018. The difference is primarily due to an in-process research and development (IPR&D) write-off of \$5.0 million recorded during the first quarter of 2018 due to the Evolve transaction, as opposed to a gain resulting from our divestment of one of our equity method investments during the first quarter of 2019.

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

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

	Three Months Ended March 31,	
	2019	2018
	U.S. \$ in thousands	
Net loss attributable to Stratasys Ltd.	\$ (2,270)	\$ (13,041)
Percentage of revenues	-1.5%	-8.5%
Diluted net loss per share	\$ (0.04)	\$ (0.24)

Net loss attributable to Stratasys Ltd. was \$2.3 million for the three months ended March 31, 2019 compared to net loss of \$13.0 million for the three months ended March 31, 2018. The decrease in the net loss attributable to Stratasys Ltd. was primarily attributable to decreased operating expenses, as well as an increase in share in profits of associated companies, as described above.

Diluted net loss per share was \$0.04 and \$0.24 for the three months ended March 31, 2019 and 2018, respectively. The weighted average fully diluted share count was 54.0 million for the three months ended March 31, 2019, compared to 53.7 million for the three months ended March 31, 2018.

## 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 mergers, acquisitions and divestments related expense or gains and reorganization-related charges or gains, and (y) excluding non-cash items such as stock-based compensation expenses, acquired intangible assets amortization, including intangible assets amortization related to equity method investments, impairment of long-lived assets and the corresponding tax effect of those items. These non-GAAP adjustments either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the statement of operations, as assessed by management. These non-GAAP financial measures are presented to permit investors to more fully understand how management assesses our performance for internal planning and forecasting purposes. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all items indicated above during a period, which may not provide a comparable view of our performance to other companies in our industry. Investors and other readers should consider non-GAAP measures only as supplements to, not as substitutes for or as superior measures to, the measures of financial performance prepared in accordance with GAAP. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table below.

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

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

	<b>Three Months Ended March 31,</b>					
	<b>2019</b>	<b>Non-GAAP</b>	<b>2019</b>	<b>2018</b>	<b>Non-GAAP</b>	<b>2018</b>
	<b>GAAP</b>	<b>Adjustments</b>	<b>Non-GAAP</b>	<b>GAAP</b>	<b>Adjustments</b>	<b>Non-GAAP</b>
	<b>U.S. dollars and shares in thousands (except per share amounts)</b>					
Gross profit (1)	\$ 76,457	\$ 4,252	\$ 80,709	\$ 75,650	\$ 5,599	\$ 81,249
Operating income (loss) (1,2)	(3,271)	10,075	6,804	(6,465)	11,387	4,922
Net income (loss) attributable to Stratasy Ltd. (1,2,3)	(2,270)	7,927	5,657	(13,041)	15,763	2,722
Net income (loss) per diluted share attributable to Stratasy Ltd. (4)	\$ (0.04)	\$ 0.14	\$ 0.10	\$ (0.24)	\$ 0.29	\$ 0.05
(1) Acquired intangible assets amortization expense		3,898			5,204	
Non-cash stock-based compensation expense		354			387	
Reorganization and other related costs		-			8	
		<u>4,252</u>			<u>5,599</u>	
(2) Acquired intangible assets amortization expense		1,889			2,558	
Non-cash stock-based compensation expense		3,875			3,028	
Reorganization and other related costs		59			1,671	
Gain from sale of plant and property		-			(1,563)	
Merger and acquisition related expense		-			94	
		<u>5,823</u>			<u>5,788</u>	
		<u>10,075</u>			<u>11,387</u>	
(3) Corresponding tax effect		(544)			(792)	
Gain from equity method divestment, related write-offs and amortization		(1,604)			5,168	
		<u>\$ 7,927</u>			<u>\$ 15,763</u>	
(4) Weighted average number of ordinary shares outstanding- Diluted	53,966		54,477	53,657		53,721

## Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2019	2018
	U.S \$ in thousands	
Net loss	\$ (2,313)	\$ (13,131)
Depreciation and amortization	12,700	15,372
Deferred income taxes	(685)	(922)
Stock-based compensation	4,229	3,415
Other non-cash item, net	(615)	5,104
Change in working capital and other items	(8,712)	17,214
Net cash provided by operating activities	4,604	27,052
Net cash used in investing activities	(5,729)	(9,270)
Net cash used by financing activities	(25,071)	(284)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	878	296
Net change in cash, cash equivalents and restricted cash	(25,318)	17,794
Cash, cash equivalents and restricted cash, beginning of period	393,734	329,359
Cash, cash equivalents and restricted cash, end of period	\$ 368,416	\$ 347,153

Our cash, cash equivalents and restricted cash balance decreased to \$368.4 million as of March 31, 2019 from \$393.7 million as of December 31, 2018. The decrease in cash and cash equivalents in the three months ended March 31, 2019 was primarily due to net cash used in financing activities in an amount of \$25.1 million and the cash used in investing activities in the amount of \$5.7 million, partially offset by net cash provided by operating activities of \$4.6 million.

Our cash, cash equivalents and restricted cash balance increased to \$347.2 million at March 31, 2018 from \$329.4 million at December 31, 2017.

### *Cash flows from operating activities*

We generated \$4.6 million of cash from operating activities during the three months ended March 31, 2019. That cash generation reflects our \$2.3 million net loss, as adjusted upwards to eliminate non-cash charges included in net loss, including \$12.7 million of depreciation and amortization and \$4.2 million of stock-based compensation expense, partially offset by downwards adjustments to reflect the unfavorable changes in our working capital balances and to eliminate non-cash changes in our other assets and liabilities, in an aggregate amount of \$8.7 million. The unfavorable impact of our working capital balances was driven by timing of tax payments, and proactive steps to increase inventory levels in order to increase lead time and support product demand.

We generated \$27.1 million of cash from operating activities during the three months ended March 31, 2018. That cash generation reflects our net loss of \$13.1 million, as adjusted upwards to eliminate non-cash charges such as depreciation and amortization of \$15.4 million, and to reflect the favorable changes to our working capital and our other assets and liabilities, in an aggregate amount of \$17.2 million.

### *Cash flows from investing activities*

We used \$5.7 million of cash in our investing activities during the three months ended March 31, 2019. Cash was primarily used to invest \$6.1 million to purchase property and equipment. Our principal property and equipment purchases were for our new buildings complex under construction in Rehovot, Israel. The new facility in Rehovot, Israel, which will contain two buildings, houses our Israeli headquarters, research and development facilities and certain marketing activities.

We used \$9.3 million of cash in our investing activities during the three months ended March 31, 2018. Cash was primarily used to invest \$7.6 million to purchase property and equipment.

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

We used \$25.1 million of cash in our financing activities during the three months ended March 31, 2019. Cash used for financing activities was mainly attributable to the early repayment of the full outstanding principal amount of our long-term loan in an amount of \$27.3 million. Cash provided by financing activities was mainly attributable to proceeds of \$2.2 million from the exercise of stock options.

We used \$0.3 million of cash in our financing activities during the three months ended March 31, 2018. Cash used by financing activities was mainly attributable to the repayment of the quarterly installments of our long-term loan in an amount of \$1.3 million, partially offset by proceeds of \$1.0 million from the exercise of stock options.

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

Our total current assets amounted to \$659.0 million as of March 31, 2019, of which \$368.4 million consisted of cash, cash equivalents and restricted cash. Total current liabilities amounted to \$171.8 million. Most of our cash and cash equivalents are held in banks in Israel and the U.S.

The credit risk related to our accounts receivable is limited due to the relatively large number of customers and their wide geographic distribution. In addition, we seek to reduce the credit exposure related to our accounts receivable by imposing credit limits, by conducting ongoing credit evaluation, and by implementing account monitoring procedures, as well as credit insurance for many of our customers.

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

#### ***Long-Term Bank Loan and Credit Line***

In December 2016, our company entered into a secured loan agreement with Bank Hapoalim Ltd. in connection with our new office facility in Israel, which agreement we refer to as the Bank Loan Agreement. Pursuant to the Bank Loan Agreement, our company borrowed \$26 million initially in December 2016, which we refer to as the Bank Loan, and secured a credit line for an additional \$24 million, or the Credit Line. Any loans to be drawn upon the Credit Line were to be under similar terms as the Bank Loan. The Bank Loan was to mature in December 2023 and was payable in equal consecutive quarterly principal installments of principal and accrued interest. Any early repayment of the Bank Loan was subject to, within the initial three year term of the Bank Loan, a maximum 1% penalty of the amount prepaid. The repayment of the Bank Loan was secured by a first-priority lien on all of our company's rights in the property of our new office facility in Israel. The Bank Loan bore interest at the rate of LIBOR plus 3.35%. The Bank Loan Agreement contained customary representations and warranties, affirmative covenants and negative covenants, which included, without limitation, restrictions on indebtedness, liens, investments, and certain dispositions with respect to the property secured by the lien.

The Bank Loan Agreement also contained customary events of default that entitled the lender to cause any or all of our company's indebtedness to become immediately due and payable and to foreclose on the lien, and included customary grace periods before certain events were to be deemed events of default. Borrowings under the Bank Loan Agreement were available mainly for the financing of our new facility in Israel.

As indicated above (under "Cash flows from financing activities"), in the first quarter of 2019, we repaid the full outstanding principal amount of the Bank Loan, in an aggregate amount of \$27.3 million, plus all interest accrued thereon, thereby fulfilling all of our remaining obligations under the Bank Loan Agreement. In connection with the repayment, the first-priority lien on all of our rights with respect to the property of our new office facility in Israel was removed.

## 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 2018 Annual Report. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances.

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

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

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

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

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

- the extent of our success at introducing new or improved products and solutions that gain market share;
- the extent of growth of the 3D printing market generally;
- changes in our overall strategy, including as related to any reorganization activities and our capital expenditures;
- 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;
- impairments of goodwill or other intangible assets in respect of companies that we acquire;
- the extent of our success at efficiently and successfully integrating the operations of various companies that we have acquired or may acquire;
- 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 2018 Annual Report, as well as in the 2018 Annual Report generally.



Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2018 Annual Report, and in our other reports filed with or furnished to the SEC, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

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

Reference is made to Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in our 2018 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 11-“Contingencies” in the notes to our unaudited condensed consolidated financial statements attached as Exhibit 99.1 to the Form 6-K.