

3D SYSTEMS CORP  
Form 10-Q  
October 28, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2010  
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-34220  
3D SYSTEMS CORPORATION**

**(Exact Name of Registrant as Specified in Its Charter)**

**DELAWARE**

**(State or Other Jurisdiction of  
Incorporation or Organization)**

**95-4431352**

**(I.R.S. Employer  
Identification No.)**

**333 THREE D SYSTEMS CIRCLE  
ROCK HILL, SOUTH CAROLINA**

**(Address of Principal Executive Offices)**

**29730**

**(Zip Code)**

**(803) 326-3900**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

**(Do not check if smaller  
reporting company)**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed

by a court. Yes o No o

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Shares of Common Stock, par value \$0.001, outstanding as of October 21, 2010: 23,266,727**

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**3D SYSTEMS CORPORATION**  
**Quarterly Report on Form 10-Q for the**  
**Quarter Ended September 30, 2010**  
**TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	31
<b><u>PART II. OTHER INFORMATION</u></b>	32
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 6. Exhibits</u>	32
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

**3D SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

<i>(in thousands, except par value)</i>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,811	\$ 24,913
Accounts receivable, net of allowance for doubtful accounts of \$1,572 (2010) and \$1,790 (2009)	26,620	23,759
Inventories, net of reserves of \$2,353 (2010) and \$2,693 (2009)	20,750	18,378
Prepaid expenses and other current assets	1,684	2,415
Deferred income tax assets	405	634
Restricted cash	54	54
Total current assets	83,324	70,153
Property and equipment, net	26,796	24,789
Intangible assets, net	7,852	3,634
Goodwill	49,961	48,730
Other assets, net	2,916	3,097
Total assets	\$ 170,849	\$ 150,403
 <b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of capitalized lease obligations	\$ 226	\$ 213
Accounts payable	13,998	12,994
Accrued and other liabilities	12,615	11,114
Customer deposits	2,601	627
Deferred revenue	8,792	8,487
Total current liabilities	38,232	33,435
Long-term portion of capitalized lease obligations	8,084	8,254
Other liabilities	3,928	3,944
Total liabilities	50,244	45,633
Commitments and contingencies		
3D Systems stockholders' equity:		
Preferred stock, authorized 5,000 shares, none issued		
Common stock, \$0.001 par value, authorized 60,000 shares; 23,261 (2010) and 22,774 (2009) issued	23	23
Additional paid-in capital	182,936	177,682
Treasury stock, at cost; 95 shares (2010) and 74 shares (2009)	(154)	(134)

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Accumulated deficit	(67,368)	(77,491)
Accumulated other comprehensive income	5,168	4,617
Total 3D Systems stockholders' equity	120,605	104,697
Non-controlling interest		73
Total equity	120,605	104,770
Total liabilities and equity	\$ 170,849	\$ 150,403

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**3D SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

<i>(in thousands, except per share amounts)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Products	\$ 28,742	\$ 19,948	\$ 75,783	\$ 53,021
Services	12,761	7,719	32,490	23,382
Total revenue	41,503	27,667	108,273	76,403
Cost of sales:				
Products	14,765	11,309	38,381	28,689
Services	7,910	4,039	20,787	14,086
Total cost of sales	22,675	15,348	59,168	42,775
Gross profit	18,828	12,319	49,105	33,628
Operating expenses:				
Selling, general and administrative	10,960	8,362	29,894	26,368
Research and development	2,708	2,865	7,979	8,618
Total operating expenses	13,668	11,227	37,873	34,986
Income (loss) from operations	5,160	1,092	11,232	(1,358)
Interest and other income (expense), net	492	(59)	(342)	(546)
Income (loss) before income taxes	5,652	1,033	10,890	(1,904)
Provision for income taxes	284	106	767	566
Net income (loss)	5,368	927	10,123	(2,470)
Less: Net income attributable to non-controlling interest		25		29
Net income (loss) attributable to 3D Systems	\$ 5,368	\$ 902	\$ 10,123	\$ (2,499)
Earnings (loss) per share basic	\$ 0.23	\$ 0.04	\$ 0.44	\$ (0.11)
Earnings (loss) per share diluted	\$ 0.23	\$ 0.04	\$ 0.43	\$ (0.11)

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**3D SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<i>(in thousands)</i>	<b>Nine Months Ended September</b>	
	<b>2010</b>	<b>30,</b> <b>2009</b>
Cash flows from operating activities:		
Net income (loss)	\$ 10,123	\$ (2,470)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	212	153
Depreciation and amortization	5,355	4,341
Provision (recovery) for bad debts	(118)	941
Stock-based compensation	1,057	936
Loss on the disposition of property and equipment	49	151
Changes in operating accounts:		
Accounts receivable	(155)	5,316
Inventories	(2,160)	744
Prepaid expenses and other current assets	920	(468)
Accounts payable	(1,308)	(4,367)
Accrued liabilities	1,892	(1,041)
Customer deposits	1,973	(116)
Deferred revenue	317	(2,180)
Other operating assets and liabilities	315	295
Net cash provided by operating activities	18,472	2,235
Cash flows used in investing activities:		
Purchases of property and equipment	(1,019)	(634)
Additions to license and patent costs	(243)	(149)
Proceeds from disposition of property and equipment	6	34
Acquisition of businesses, net of cash acquired	(9,086)	
Net cash used in investing activities	(10,342)	(749)
Cash flows provided by financing activities:		
Stock option and restricted stock proceeds	262	242
Repayment of long-term debt	(159)	(145)
Repayment of short-term borrowings		(3,085)
Restricted cash		3,216
Net cash provided by financing activities	103	228
Effect of exchange rate changes on cash	665	103
Net increase in cash and cash equivalents	8,898	1,817
Cash and cash equivalents at the beginning of the period	24,913	22,164



Cash and cash equivalents at the end of the period	\$	33,811	\$	23,981
<b>Supplemental Cash Flow Information:</b>				
Interest payments	\$	442	\$	474
Income tax payments (receipts)		274		(208)
Non-cash items:				
Transfer of equipment from inventory to property and equipment, net (a)		1,419		461
Transfer of equipment to inventory from property and equipment, net (b)		392		341
Stock issued for acquisitions of businesses		3,915		

(a) Inventory is transferred from inventory to property and equipment at cost when the Company requires additional machines for training, demonstration or short-term rentals.

(b) In general, an asset is transferred from property and equipment, net, into inventory at its net book value when the Company has identified a potential sale for a used machine. The machine is removed from inventory upon recognition of the sale.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**3D SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF EQUITY**  
**(Unaudited)**

<i>(in thousands, except par value)</i>	Equity Attributable to 3D Systems Stockholders									
	Common Stock			Treasury Stock			Accumulated Total Equity 3D Attributable			
	Shares	Par Value \$0.001	Additional Paid-in Capital	Shares	Amount	Deficit	Other Comprehensive Income	Stockholders' Equity	Systems to controlling interest	Total Equity
Balance at December 31, 2009	22,774	\$ 23	\$ 177,682	74	\$(134)	\$(77,491)	\$ 4,617	\$ 104,697	\$ 73	\$ 104,770
Exercise of stock options	16		(a) 166					166		166
Issuance (repurchase) of restricted stock, net	116		(a) 116	21	(20)			96		96
Stock-based compensation expense	18		1,057					1,057		1,057
Issuance of stock for acquisitions	337		(a) 3,915					3,915		3,915
Net income						10,123		10,123		10,123
Acquisition of non-controlling interest									(73)	(73)
Loss on pension plan unrealized							(6)	(6)		(6)
Foreign currency translation adjustment							557	557		557
Balance at September 30, 2010	23,261	\$ 23	\$ 182,936	95	\$(154)	\$(67,368)	\$ 5,168	\$ 120,605	\$	\$ 120,605

(a) Amounts not shown due to rounding.

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**3D SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**

	<b>Quarter Ended September</b>		<b>Nine Months Ended September</b>	
	<b>30,</b>		<b>30,</b>	
<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income (loss) attributable to 3D Systems	\$ 5,368	\$ 902	\$ 10,123	\$ (2,499)
Net income attributable to non-controlling interest		25		29
Net income (loss)	5,368	927	10,123	(2,470)
Other comprehensive income (loss):				
Unrealized gain (loss) on pension obligation	14	9	(6)	9
Foreign currency translation adjustments	1,831	768	557	217
Comprehensive income (loss), net	\$ 7,213	\$ 1,704	\$ 10,674	\$ (2,244)

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**3D SYSTEMS CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(1) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of 3D Systems Corporation and its subsidiaries (collectively, the Company). All significant intercompany transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim reports. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2009.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the quarter and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from these estimates and assumptions.

Certain prior period amounts presented in the accompanying footnotes have been reclassified to conform to current year presentation.

All amounts presented in the accompanying footnotes are presented in thousands, except for earnings per share information.

The Company has evaluated subsequent events from the date of the condensed consolidated balance sheet through the date the financial statements were issued. During this period, the acquisition of Provel S.r.l. was a significant, non-recognized event. There were no other recognizable subsequent events identified. See Note 15 for a description of subsequent events.

*Recent Accounting Pronouncements*

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) 2009-13, Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force, to provide amendments to the criteria in Subtopic 609-24 of the Accounting Standards Codification (Codification) for separating consideration into multiple-deliverable revenue arrangements. ASU 2009-13 establishes a selling price hierarchy for determining the selling price of each specific deliverable, which includes vendor-specific objective evidence (VSOE) if available, third party evidence if VSOE is not available or estimated selling price if neither VSOE nor third party evidence is available. ASU 2009-13 also eliminates the residual method for allocating revenue between the elements of an arrangement and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price. This Update expands the disclosure requirements regarding a vendor's multiple-deliverable revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of ASU 2009-13 on its consolidated financial statements.

In October 2009, the FASB issued ASU 2009-14, Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force. This Update removes tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality from the scope of the software revenue guidance in Subtopic 985-605 of the Codification. Additionally, ASU 2009-14 provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software that is not essential to the product's functionality. ASU 2009-14 requires the same expanded disclosures that are included within ASU 2009-13. ASU 2009-14 is effective

prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010, with early adoption permitted. A company is required to adopt the amendments in both ASU 2009-13 and ASU 2009-14 in the same period using the same transition method. The Company is currently evaluating the impact of ASU 2009-14 on its consolidated financial statements.

**Table of Contents**

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This Update is intended to provide financial statement users with additional information to assist them in assessing credit risk exposures and the adequacy of the allowance for credit losses. ASU 2010-20 is effective for interim and annual reporting periods ending on and after December 15, 2010. The impact of adoption of ASU 2010-20 by the Company is not expected to have a significant impact on its consolidated financial statements. No other new accounting pronouncements issued or effective during the first nine months of 2010 have had or are expected to have an impact on the Company's consolidated financial statements.

**(2) Acquisitions**

On February 16, 2010, the Company acquired the assets of Moeller Design and Development, Inc. ( Moeller Design ) in Seattle, Washington. Moeller Design is a provider of premium precision investment casting services and prototyping for aerospace and medical device applications. The Company acquired Moeller Design for its premium parts capabilities and to expand the geographic footprint of its 3Dparts service to the West Coast. Moeller Design has been integrated into the Company's 3Dparts service. The fair value of the consideration paid for this acquisition was \$3,600 and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date. In addition, there was a gain from bargain purchase for \$37. Of the \$3,600 consideration, \$1,000 was paid in shares of the Company's common stock. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

In connection with the acquisition, the Company entered into a lease agreement with an entity whose managing member is the former owner of Moeller Design, pursuant to which the Company agreed to lease the facilities at which Moeller Design's operations are conducted. The lease provides for an initial term of five years with renewal options for two successive five-year terms. The lease agreement includes an option for the Company to purchase the facility.

On April 6, 2010, the Company acquired the assets of Design Prototyping Technologies, Inc. ( DPT ) in Syracuse, New York. DPT is a provider of fast turnaround functional parts and prototypes. The Company acquired DPT to enhance its online offerings for its 3Dparts service. DPT has been integrated into the Company's 3Dparts service. The fair value of the consideration paid for this acquisition was \$3,600 and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date. Of the \$3,600 consideration, \$600 was paid in shares of the Company's common stock. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

In connection with the DPT acquisition, the Company entered into a lease agreement with an entity whose managing members are the former owners of DPT, pursuant to which the Company agreed to lease the facilities at which DPT's operations are conducted. The lease provides for an initial term of approximately two years with renewal options for two-year and one-year successive terms, respectively. The lease agreement includes a right of first refusal with respect to the sale of the building.

On July 7, 2010, the Company acquired the assets of CEP S.A. and its affiliate, Protometal S.A. (collectively CEP ), rapid prototyping and rapid manufacturing services providers located in Joué l'Abbé, France. The Company acquired CEP to augment and expand its 3Dparts business in Europe. CEP has been integrated into the Company's 3Dparts service. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$3,465 and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date. Of the \$3,465 consideration, \$2,086 was paid in cash, \$1,064 was paid in shares of the Company's common stock, and the remaining amount of \$315 is due at a future date. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

In connection with the CEP acquisition, the Company entered into lease agreements, pursuant to which the Company agreed to lease the facilities at which CEP's operations are conducted. The leases current terms extend until December 31, 2011, at which point the Company has renewal options extending until 2020.

On September 16, 2010, the Company acquired the assets of Express Pattern, Inc. ( Express Pattern ) in Vernon Hills, Illinois. Express Pattern is a provider of rapid prototyping, direct patterns for investment casting and manufacturing services. The Company acquired Express Pattern as part of the Company's continued expansion of its 3Dparts service. Express Pattern serves defense, transportation, recreation and healthcare customers by delivering a comprehensive menu of the most advanced rapid casting, tooling and parts solutions. The fair value of the

consideration paid for this acquisition was \$1,650 and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date. Of the \$1,650 consideration, \$250 was paid in shares of the Company's common stock. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

**Table of Contents**

Amounts related to the above acquisitions included in the Company's unaudited condensed consolidated balance sheet at September 30, 2010 were as follows:

<i>(in thousands)</i>	<b>2010</b>
Property and equipment	\$ 4,435
Intangible assets	5,747
Other assets, net of cash acquired and liabilities assumed	2,170
Gain from bargain purchase	(37)
Net assets acquired	\$ 12,315

*Subsequent Acquisitions*

On October 5, 2010, the Company acquired the shares of Bits From Bytes Limited, a United Kingdom producer of 3D printers and printer kits located near Bristol, England. The Company is in the process of integrating Bits From Bytes. Based on the exchange rate at the date of acquisition, the fair value of the consideration paid for this acquisition was \$2,383, of which \$596 was paid in shares of the Company's common stock. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933. Due to the timing of this acquisition, at the time of this filing the Company is in the process of allocating the fair value of assets purchased, liabilities assumed and other intangibles identified as of the acquisition date, with any excess to be recorded as goodwill. This transaction will be recorded in the fourth quarter of 2010.

Subject to the terms and conditions of the acquisition agreement, the sellers have the right to earn an additional amount of up to a maximum of approximately \$16,651, based on the exchange rate at the date of acquisition, pursuant to an earn-out formula set forth in the acquisition agreement for a period of three years which commenced on October 1, 2010.

On October 12, 2010, the Company acquired the shares of Provel, S.r.l., an Italian provider of rapid prototyping, tooling and manufacturing services located near Turin, Italy. The Company acquired Provel as part of its continued expansion of its 3Dparts service in Europe. The Company is in the process of integrating Provel into its 3Dparts service. Based on the exchange rate at the date of acquisition, the fair value of the consideration paid for this acquisition, net of cash acquired, was \$13,252, of which \$7,894 was paid in cash and \$1,392 was paid in shares at closing, with a future installment of \$3,966 due October 2011. The shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

Subject to the terms and conditions of the acquisition agreement, the sellers have the right to earn an additional amount up to approximately \$1,392, based on the exchange rate at the date of acquisition, pursuant to an earn-out formula set forth in the acquisition agreement, for a period of twelve months, which is expected to commence on February 1, 2011.

The fair value of consideration was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of June 30, 2010 and is preliminary. The Company expects to finalize the purchase price allocation in the fourth quarter of 2010 and at that time the final allocation may differ from the information presented in these unaudited condensed consolidated financial statements.

The table below represents a preliminary allocation of the total consideration to tangible and intangible assets and liabilities of Provel S.r.l., based upon the preliminary estimate of their respective values as of June 30, 2010:

<i>(in thousands)</i>	<b>June 30, 2010</b>
Property and equipment	\$ 946
Intangible assets	9,291
Other assets, net of cash acquired and liabilities assumed	4,035
Net assets acquired	\$ 14,272



This transaction will be recorded in the fourth quarter of 2010.

**(3) Inventories**

Components of inventories, net at September 30, 2010 and December 31, 2009 were as follows:

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
Raw materials	\$ 2,729	\$ 2,294
Work in process	163	253
Finished goods and parts	20,211	18,524
Total cost	23,103	21,071
Less: reserves	(2,353)	(2,693)
Inventories, net	\$ 20,750	\$ 18,378

**Table of Contents****(4) Property and Equipment**

Property and equipment at September 30, 2010 and December 31, 2009 were as follows:

<i>(in thousands, except years)</i>	<b>2010</b>	<b>2009</b>	<b>Useful Life (in years)</b>
Land	\$ 152	\$ 152	N/A
Building	9,574	9,454	25
Machinery and equipment	28,327	23,418	3-7
Capitalized software ERP	3,120	3,096	5
Office furniture and equipment	2,965	3,358	5
Leasehold improvements	5,434	4,941	Life of lease
Rental equipment	480	1,079	5
Construction in progress	1,088	1,243	N/A
Total property and equipment	51,140	46,741	
Less: accumulated depreciation and amortization	(24,344)	(21,952)	
Total property and equipment, net	\$ 26,796	\$ 24,789	

Depreciation and software amortization expense on property and equipment for the quarter and nine months ended September 30, 2010 were \$1,644 and \$4,511, respectively, compared to \$1,148 and \$3,657 for the quarter and nine months ended September 30, 2009.

**(5) Intangible Assets**

Intangible assets other than goodwill at September 30, 2010 and December 31, 2009 were as follows:

<i>(in thousands)</i>	<b>2010</b>			<b>2009</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Licenses	\$ 5,875	\$ (5,875)	\$	\$ 5,875	\$ (5,586)	\$ 289
Patent costs	16,251	(13,578)	2,673	16,069	(13,450)	2,619
Internally developed software	9,984	(8,883)	1,101	8,968	(8,968)	
Customer relationships	2,668	(138)	2,530	561	(10)	551
Non-compete agreements	1,807	(700)	1,107	803	(652)	151
Trade names	477	(56)	421	30	(6)	24
Other	883	(863)	20	806	(806)	
Total	\$ 37,945	\$ (30,093)	\$ 7,852	\$ 33,112	\$ (29,478)	\$ 3,634

Amortization expense for intangible assets for the quarter and nine months ended September 30, 2010 were \$282 and \$844, respectively, compared to \$174 and \$684 for the quarter and nine months ended September 30, 2009. Annual amortization expense for intangible assets for 2010, 2011, 2012, 2013 and 2014 is expected to be \$2,025, \$3,901, \$3,264, \$2,594 and \$2,149, respectively.

For the nine months ended September 30, 2010 and 2009, the Company capitalized \$243 and \$149, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

**(6) Accrued and Other Liabilities**

Accrued liabilities at September 30, 2010 and December 31, 2009 were as follows:

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
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Compensation and benefits	\$	5,841	\$	3,680
Vendor accruals		1,091		1,197
Accrued professional fees		419		642
Accrued taxes		2,753		2,400
Royalties payable		252		244
Accrued interest		48		50
Contractual obligations due to acquisitions		1,669		2,224
Accrued other		542		677
Total	\$	12,615	\$	11,114

**Table of Contents**

Other liabilities at September 30, 2010 and December 31, 2009 were as follows:

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
Defined benefit pension obligation	\$ 3,149	\$ 3,237
Other long-term liabilities	779	707
Total	\$ 3,928	\$ 3,944

**(7) Hedging Activities and Financial Instruments**

The Company conducts business in various countries using both the functional currencies of those countries and other currencies to effect cross border transactions. As a result, the Company is subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, the Company endeavors to match assets and liabilities in the same currency on its balance sheet and those of its subsidiaries in order to reduce these risks. When appropriate, the Company enters into foreign currency contracts to hedge exposures arising from those transactions. The Company has elected not to prepare and maintain the documentation to qualify for hedge accounting treatment under ASC 815,

Derivatives and Hedging, and therefore, all gains and losses (realized or unrealized) are recognized in Interest and other expense, net in the condensed consolidated statements of operations. Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid expenses and other current assets or in accrued liabilities on the condensed consolidated balance sheet.

There were no foreign currency contracts outstanding at September 30, 2010. The foreign currency contracts outstanding at December 31, 2009 expired at various times between January 6, 2010 and February 3, 2010.

At December 31, 2009, these contracts included contracts for the purchase of currencies other than the U.S. dollar. The dollar equivalents of the foreign currency contracts and the related fair values as of September 30, 2010 and December 31, 2009 were as follows:

<i>(in thousands)</i>	<b>Foreign Currency Purchase Contracts</b>	
	<b>2010</b>	<b>2009</b>
Notional amount	\$	\$ 1,587
Fair value		1,563
Net unrealized gain (loss)	\$	\$ (24)

The total impact of foreign currency items on the condensed consolidated statements of operations for the quarter and nine months ended September 30, 2010 were gains of \$681 and \$140, respectively, compared to gains of \$285 and \$119, respectively, for the quarter and nine months ended September 30, 2009.

**(8) Stock-based Compensation Plans**

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations. Stock-based compensation expense for the quarter and nine months ended September 30, 2010 and 2009 was as follows:

<i>(in thousands)</i>	<b>Quarter Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Restricted stock awards	\$ 268	\$ 205	\$ 1,057	\$ 936

The number of shares of restricted common stock awarded and the weighted average fair value per share during the quarter and nine months ended September 30, 2010 and 2009 were as follows:

<i>(in thousands, except per share amounts)</i>	Quarter Ended September 30,			
		2010		2009
	Shares	Weighted	Shares	Weighted
	Awarded	Average	Awarded	Average
		Fair Value		Fair Value
Restricted stock awards:				
Granted under the 2004 Incentive Stock Plan	20	\$ 13.15	41	\$ 8.43
Granted under the 2004 Restricted Stock Plan for Non-Employee Directors				
Total restricted stock awards	20	\$ 13.15	41	\$ 8.43

**Table of Contents**

<i>(in thousands, except per share amounts)</i>	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Shares</b>	<b>Weighted</b>	<b>Shares</b>	<b>Weighted</b>
	<b>Awarded</b>	<b>Average</b>	<b>Awarded</b>	<b>Average</b>
		<b>Fair Value</b>		<b>Fair Value</b>
Restricted stock awards:				
Granted under the 2004 Incentive Stock Plan	72	\$ 13.70	219	\$ 7.11
Granted under the 2004 Restricted Stock Plan for Non-Employee Directors	18	14.29	21	6.97
Total restricted stock awards	90	\$ 13.81	240	\$ 7.10

Of the 72 shares of restricted stock awards granted in the nine months ended September 30, 2010 pursuant to the Company's 2004 Incentive Stock Plan, none were awarded to executive officers of the Company. Additionally, of the 20 shares granted in the third quarter of 2010 under the 2004 Incentive Stock Plan, 10 remained subject to acceptance at September 30, 2010. In the first nine months of 2009, the Company granted restricted stock awards covering 219 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan, including 110 shares awarded to executive officers of the Company.

In the third quarter of 2010 the Company did not issue any shares of common stock pursuant to the Company's 2004 Restricted Stock Plan for Non-Employee Directors. Stock compensation expense for directors totaled \$0 and \$257, for the quarter and nine months ended September 30, 2010, respectively, compared to \$0 and \$146, for the quarter and nine months ended September 30, 2009, respectively.

**(9) International Retirement Plan**

The following table shows the components of net periodic benefit costs and other amounts recognized in the condensed consolidated statements of operations for the quarter and nine months ended September 30, 2010 and 2009:

<i>(in thousands)</i>	<b>Quarter Ended September</b>		<b>Nine Months Ended September</b>	
	<b>30,</b>		<b>30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Service cost	\$ 24	\$ 22	\$ 74	\$ 68
Interest cost	22	21	70	65
Total	\$ 46	\$ 43	\$ 144	\$ 133

**(10) Earnings Per Share**

The Company presents basic and diluted earnings (loss) per share (EPS) amounts. Basic EPS is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS is calculated by dividing 3D Systems net income (loss) by the weighted average number of common and common equivalent shares outstanding during the applicable period. The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares for the quarters and nine months ended September 30, 2010 and 2009:

<i>(in thousands, except per share amounts)</i>	<b>Quarter Ended September</b>		<b>Nine Months Ended</b>	
	<b>30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Numerator:	\$ 5,368	\$ 902	\$ 10,123	\$ (2,499)

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3D Systems net income (loss) numerator for  
basic net earnings (loss) per share  
Add: Effect of dilutive securities  
Stock options and other equity compensation

Numerator for dilutive earnings (loss) per share	\$	5,368	\$	902	\$	10,123	\$	(2,499)
--	----	-------	----	-----	----	--------	----	---------

Denominator:

Weighted average shares denominator for basic  
net earnings (loss) per share

		23,147		22,627		23,010		22,504
--	--	--------	--	--------	--	--------	--	--------

Add: Effect of dilutive securities

Stock options and other equity compensation		294		67		292		
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Denominator for dilutive earnings (loss) per  
share

		23,441		22,694		23,302		22,504
--	--	--------	--	--------	--	--------	--	--------

Earnings (loss) per share

Basic	\$	0.23	\$	0.04	\$	0.44	\$	(0.11)
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Diluted	\$	0.23	\$	0.04	\$	0.43	\$	(0.11)
---------	----	------	----	------	----	------	----	--------

Unexercised employee stock options excluded  
from diluted earnings per share <sup>(1)</sup>

		140		354		133		870
--	--	-----	--	-----	--	-----	--	-----

(1) The average  
outstanding  
diluted shares  
calculation  
excludes options  
with an exercise  
price that  
exceeds the  
average market  
price of shares  
during the  
period, since the  
effect of their  
inclusion would  
have been  
anti-dilutive  
resulting in a  
reduction to the  
net earnings  
(loss) per share.

**Table of Contents**

For the nine months ended September 30, 2010, average common shares for basic and diluted earnings per share were 23,010 and 23,302, respectively, and basic and diluted earnings per share were \$0.44 and \$0.43, respectively.

For the nine months ended September 30, 2009, average common shares for basic and diluted earnings per share were 22,504, and basic and diluted earnings per share were (\$0.11).

**(11) Fair Value Measurements**

ASC 820, Fair Value Measurements, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

*Level 1* - Quoted prices in active markets for identical assets or liabilities.

*Level 2* - Observable inputs other than Level 1 prices are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For the Company, the above standard applies to cash equivalents and foreign exchange contracts. The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<i>(in thousands)</i>	<b>Fair Value Measurements as of September 30, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents <sup>(1)</sup>	\$ 17,339	\$	\$	\$ 17,339

(1) Cash equivalents include funds held in money market instruments and are reported at their current carrying value which approximates fair value due to the short-term nature of these instruments and are included in cash and cash equivalents in our condensed consolidated



balance sheet.

The Company did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the quarter or nine months ended September 30, 2010.

In addition to the financial assets and liabilities included in the above table, certain of our non-financial assets and liabilities are to be measured at fair value on a non-recurring basis. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and non-financial, long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets including goodwill, other intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when an impairment is recognized. The Company has not recorded any impairments related to such assets and has had no other significant non-financial assets or non-financial liabilities requiring adjustments or write-downs to fair value as of September 30, 2010 or December 31, 2009.

**(12) Income Taxes**

The Company's effective tax rates were 5.0% and 7.0% for the quarter and nine months ended September 30, 2010, respectively, compared to 10.3% and (29.7%) for the quarter and nine months ended September 30, 2009, respectively. Tax expense relates primarily to income from non-U.S. operations.

**Table of Contents**

Tax years 2006 to 2009 remain subject to examination by the U.S. Internal Revenue Service. Should the Company utilize any of its remaining U.S. loss carry-forwards, which date from 1997, these would be subject to examination. The Company files income tax returns (which are open to examination beginning in the year shown in parentheses) in France (2004), Germany (2006), Japan (2004), Italy (2004), Switzerland (2004) and the United Kingdom (2006).

**(13) Segment Information**

The Company operates in one reportable business segment in which it develops, manufactures and markets worldwide 3-D printing, rapid prototyping and manufacturing systems and related products and services designed to reduce the time it takes to produce three-dimensional objects and operates 3Dproparts , a comprehensive service bureau that offers rapid prototyping and manufacturing services. The Company conducts its business through subsidiaries in the United States, a subsidiary in Switzerland that operates a research and production facility, sales and service offices operated by subsidiaries in the European Community (France, Germany, the United Kingdom and Italy) and Japan, and a branch office in Hong Kong. The Company has historically disclosed summarized financial information for the geographic areas of operations as if they were segments, in accordance with ASC 280, Segment Reporting.

Summarized financial information concerning the Company's geographical operations is shown in the following tables:

<i>(in thousands)</i>	Quarter Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2010	2009	2010	2009
Revenue from unaffiliated customers:				
United States	\$ 18,146	\$ 12,215	\$ 49,690	\$ 34,425
Germany	5,773	5,528	17,091	16,519
Other Europe	11,037	5,399	25,860	15,148
Asia Pacific	6,547	4,525	15,632	10,311
Total	\$ 41,503	\$ 27,667	\$ 108,273	\$ 76,403

The Company's revenues from unaffiliated customers by type are as follows:

<i>(in thousands)</i>	Quarter Ended September		Nine Months Ended September	
	30,	30,	30,	30,
	2010	2009	2010	2009
Systems and other products	\$ 14,506	\$ 6,825	\$ 33,961	\$ 17,566
Materials	14,236	13,123	41,822	35,455
Services	12,761	7,719	32,490	23,382
Total	\$ 41,503	\$ 27,667	\$ 108,273	\$ 76,403

Intercompany sales are as follows:

<i>(in thousands)</i>	Quarter Ended September 30, 2010				Total
	United States	Germany	Other Europe	Asia Pacific	
United States	\$	\$ 2,526	\$ 3,917	\$ 598	\$ 7,041
Germany	29		540		569
Other Europe	2,079	(169)	(26)		1,884
Asia Pacific					

Total	\$ 2,108	\$ 2,357	\$ 4,431	\$ 598	\$ 9,494
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**Quarter Ended September 30, 2009****Intercompany Sales to**

<i>(in thousands)</i>	<b>United States</b>	<b>Germany</b>	<b>Other Europe</b>	<b>Asia Pacific</b>	<b>Total</b>
United States	\$	\$ 2,606	\$ 1,547	\$ 421	\$ 4,574
Germany	12		621		633
Other Europe	1,974	70			2,044
Asia Pacific					
Total	\$ 1,986	\$ 2,676	\$ 2,168	\$ 421	\$ 7,251

**Table of Contents**

**Nine Months Ended September 30, 2010**  
**Intercompany Sales to**

<i>(in thousands)</i>	<b>United States</b>	<b>Germany</b>	<b>Other Europe</b>	<b>Asia Pacific</b>	<b>Total</b>
United States	\$	\$ 9,671	\$ 8,296	\$ 1,982	\$ 19,949
Germany	263		2,777		3,040
Other Europe	6,243	52	1		6,296
Asia Pacific	34				34
Total	\$ 6,540	\$ 9,723	\$ 11,074	\$ 1,982	\$ 29,319

**Nine Months Ended September 30, 2009**  
**Intercompany Sales to**

<i>(in thousands)</i>	<b>United States</b>	<b>Germany</b>	<b>Other Europe</b>	<b>Asia Pacific</b>	<b>Total</b>
United States	\$	\$ 8,357	\$ 4,930	\$ 1,987	\$ 15,274
Germany	15		2,393		2,408
Other Europe	5,187	516			5,703
Asia Pacific					
Total	\$ 5,202	\$ 8,873	\$ 7,323	\$ 1,987	\$ 23,385

All revenue between geographic areas is recorded at prices that provide for an allocation of profit (loss) between entities. Income (loss) from operations and assets for each geographic area are as follows:

<i>(in thousands)</i>	<b>Quarter Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Income (loss) from operations:				
United States	\$ 2,295	\$ (584)	\$ 4,413	\$ (5,665)
Germany	190	159	691	615
Other Europe	378	281	1,280	927
Asia Pacific	2,101	1,395	4,481	2,528
Subtotal	4,964	1,251	10,864	(1,595)
Inter-segment elimination	196	(159)	367	237
Total	\$ 5,160	\$ 1,092	\$ 11,232	\$ (1,358)

<i>(in thousands)</i>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Assets:		
United States	\$ 98,418	\$ 93,595
Germany	22,540	16,690
Other Europe	38,249	28,383

Asia Pacific		11,642		11,735
Total		\$ 170,849	\$	150,403

**(14) Commitments and Contingencies**

The Company leased office space and certain furniture and fixtures under various non-cancelable operating leases. Rent expense under operating leases was \$203 and \$309 for the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010, rent expense under operating leases was \$584 compared to \$838 for the nine months ended September 30, 2009.

The Company has deferred purchase price obligations due to acquisitions. See Note 2 for details of acquisitions and related commitments.

On March 14, 2008, DSM Desotech Inc. filed a complaint, in an action titled *DSM Desotech Inc. v. 3D Systems Corporation* in the United States District Court for the Northern District of Illinois (Eastern Division) asserting that the Company engaged in anticompetitive behavior with respect to resins used in large-frame stereolithography machines. The complaint further asserted that the Company is infringing on two of DSM Desotech's patents relating to stereolithography machines. The Company understands that DSM Desotech estimates the damages associated with its claims to be in excess of \$40,000.

Following a decision of the Court on the Company's motion to dismiss the non-patent causes of the action, DSM Desotech filed a second amended complaint on March 2, 2009 in which it reasserted causes of action previously dismissed by the Court. The Company filed an answer to the second amended complaint on March 19, 2009 in which, among other things, it denied the material allegations of the second amended complaint. On July 20, 2010, the Court issued a decision relating to the construction of the claims of the patents-in-suit following the Markman hearing held on September 16, 2009. In that decision, the Court generally adopted the claim constructions proposed by the Company. Discovery is proceeding on the claims pending in this case.

**Table of Contents**

The Company intends to continue vigorously contesting all the claims asserted by DSM Desotech.

The Company has been pursuing patent infringement litigation against EnvisionTEC, Inc. and certain of its affiliated companies since 2005. In this litigation, the Company asserted that EnvisionTEC infringed the Company's patents covering various three-dimensional solid imaging products and methods for creating physical three-dimensional models of an object and has sought injunctive relief and damages. EnvisionTEC's Perfactory machine and Vanquish machine (the Vanquish is now marketed as the PerfactoryXede and PerfactoryXtreme) are the two products accused of patent infringement. On February 6, 2008 the Court issued Markman claim constructions that generally adopted the claim constructions proposed by the Company.

A jury trial was held from September 21 to September 29, 2010. Following that trial, the jury issued a verdict to the effect that EnvisionTEC's Vanquish machine infringes one of 3D Systems' patents, and the Court entered judgment on that verdict on October 7, 2010.

The Company has not yet sought to enforce this judgment, but believes that it is entitled to an injunction as a result of the judgment entered by the Court. The Company also intends to pursue claims for damages against EnvisionTEC.

On July 14, 2010, MSK K.K., a Japanese company, filed a complaint against the Company's Japanese subsidiary in the Tokyo District Court asserting, among other things, that the Company's subsidiary failed to satisfy certain alleged performance guarantees associated with the use of certain materials in two systems purchased from the Company in 2007. The plaintiff is seeking damages in excess of \$1,600.

The Company intends to vigorously contest the claims asserted by MSK K.K..

The Company is also involved in various other legal matters incidental to its business. The Company's management believes, after consulting with counsel, that the disposition of these other legal matters will not have a material effect on the Company's consolidated results of operations or consolidated financial position.

**(15) Subsequent Events**

On October 5, 2010, the Company acquired Bits From Bytes, Ltd. in a share purchase. Future revenue from this acquisition will be reported in Products revenue. See Note 2.

On October 12, 2010, the Company acquired Provel, S.r.l. in a share purchase. The Provel acquisition is significant to the Company's financial statements. Future revenue from the this acquisition will be reported in Services revenue. See Note 2.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q ( Form 10-Q ).

We are subject to a number of risks and uncertainties that may affect our future performance that are discussed in greater detail in the sections entitled Forward-Looking Statements and Cautionary Statements and Risk Factors at the end of this Item 2 and that are discussed or referred to in Item 1A of Part II of this Form 10-Q.

**Business Overview**

We design, develop, manufacture, market and service 3D printing, rapid manufacturing, and prototyping systems and related products and materials that enable complex three-dimensional objects to be produced directly from computer data without tooling, greatly reducing the time and cost required to produce prototypes or customized production parts. We also operate 3Dproparts , a comprehensive service bureau that offers our customers rapid prototyping and manufacturing services for the production of precision parts.

Our consolidated revenue is derived primarily from the sale of our systems, the sale of the related materials used by the systems to produce solid objects and the provision of services to our customers.

**Recent Developments**

We have continued to execute on our strategy to grow our 3Dproparts service, through additional strategic acquisitions and by further expanding our distribution channel of 3D printing reseller partners.

In July 2010, we made our first 3Dproparts European acquisition, acquiring the assets of CEP S.A. and its affiliate, Protometal S.A. (collectively CEP ), rapid prototyping and rapid manufacturing services providers located in Joué 1 Abbé, France. We acquired CEP to augment and expand our 3Dproparts business in Europe.

In September 2010, we acquired the assets of Express Pattern, Inc. in Vernon Hills, Illinois. Express Pattern is a leading prototyper that serves defense, transportation, recreation and healthcare customers by delivering a comprehensive menu of advanced rapid casting, tooling and parts solutions as part of our continued expansion of our 3Dproparts service.

In October 2010, we expanded our 3Dproparts business in Europe, acquiring the shares of Provel S.r.l. located near Turin, Italy. Provel provides rapid prototyping, tooling and manufacturing services, specializing in stereolithography, selective laser sintering, rapid tooling and urethane casting.

In October 2010, as part of our strategy to accelerate 3D printer penetration and new products and channel expansion, we acquired Bits From Bytes Ltd. located near Bristol, England. Bits From Bytes is a maker of affordable 3D printers and printer kits that print real plastic parts from a variety of materials, including ABS, PLA, polypropylene, and polyethylene for educational, hobbyist, and professional applications.

**Results of Operations**

***Summary of 2010 financial results***

Our operating activities generated \$18.5 million of cash during the first nine months of 2010, of which we used \$10.3 million to fund our strategic investing activities. In total, unrestricted cash increased \$8.9 million in the first nine months of 2010, resulting in a balance of \$33.8 million of unrestricted cash compared to \$24.9 million of unrestricted cash at December 31, 2009.

During the third quarter of 2010 we reported improved revenue and profit as compared to the third quarter of 2009 as our worldwide business continued to expand. Revenue for the nine months ended September 30, 2010 increased 41.7% over 2009. This increase in revenue was led by a \$16.4 million, or 93.3%, increase in sales of systems and other products together with a \$6.4 million, or 18.0%, increase in materials sales, and a \$9.1 million, or 39.0%, increase in services revenue year-over-year. Higher revenue coupled with a focus on continued cost containment, enabled us to achieve net income of \$10.1 million for the first nine months of 2010, compared to a net loss of \$2.5 million for the same period in 2009.

**Table of Contents**

Materials sales for the third quarter of 2010 rose by \$1.1 million from the third quarter of 2009 as revenue from materials was favorably impacted by continued expansion of systems installed over past periods. In addition, the higher production systems sales are typically accompanied by significant initial materials purchases to charge up new systems and commence production. Materials revenue increased compared to the third quarter of 2009 notwithstanding the fact that materials consumed by 3Dparts were not included in our materials revenue line.

Revenue from services increased by \$5.1 million to \$12.8 million in the third quarter of 2010 from \$7.7 million in the third quarter of 2009. Services revenue grew by \$2.3 million in the third quarter of 2010 from \$10.5 million in the second quarter of 2010.

For the third quarter of 2010 healthcare revenue made up 14%, or \$6.0 million of our total revenue compared to 14%, or \$4.5 million in the second quarter of 2010 and includes sales of systems, materials and services for the following applications: hearing aid, dental, medical device and other health-related applications.

Although system sales into these marketplaces can fluctuate from period to period, 58% of revenue from healthcare applications was from recurring revenue in the third quarter of 2010 compared to 73% in the second quarter of 2010.

Our higher gross profit in the third quarter and first nine months of 2010 arose primarily from our higher level of revenue coupled with continued cost containment. Our gross profit margin increased to 45.4% in the third quarter of 2010 from 44.5% in the third quarter of 2009 due to product mix and improvements in our cost structure.

Our operating expenses increased by \$2.5 million in the third quarter of 2010 to \$13.7 million from \$11.2 million in the third quarter of 2009. The increase reflected higher selling, general and administrative expenses primarily related to the integration and operation of the acquisitions, compensation expense related to the sales of our products, as well as higher legal fees associated with the DSM Desotech litigation and the EnvisionTEC trial. We expect our SG&A expenses for the remainder of 2010 to be in the range of \$11.0 to \$12.0 million, and our research and development expenses to be in the range of \$2.5 million to \$3.0 million.

Our operating income for the third quarter of 2010 improved to \$5.2 million from \$1.1 million in the 2009 third quarter. This improvement in operating income arose from higher revenues and gross profit partially offset by higher operating expense, as discussed below.

**Results of Operations Third Quarter Comparisons*****Third quarter comparison of revenue by class of product and service***

Table 1 sets forth our change in revenue by class of product and service for the third quarter of 2010 compared to the third quarter of 2009:

**Table 1**

(Dollars in thousands)	Systems and Other		Materials		Services		Totals	
	Products							
Revenue 3 <sup>rd</sup> quarter 2009	\$ 6,825	24.7%	\$ 13,123	47.4%	\$ 7,719	27.9%	\$ 27,667	100%
Change in revenue:								
Volume								
Core products and services	4,032	59.1	3,157	24.1	4,934	63.9	12,123	43.8
New products and services	7,214	105.7	(471)	(3.6)	489	6.3	7,232	26.1
Price/Mix	(3,153)	(46.2)	(1,155)	(8.8)			(4,308)	(15.5)
Foreign currency translation	(412)	(6.0)	(418)	(3.2)	(381)	(4.9)	(1,211)	(4.4)
Net change	7,681	112.6	1,113	8.5	5,042	65.3	13,836	50.0
Revenue 3 <sup>rd</sup> quarter 2010	\$ 14,506	35.0%	\$ 14,236	34.3%	\$ 12,761	30.7%	\$ 41,503	100%

We earn revenues from the sale of systems and other products, materials and services. On a consolidated basis, revenue for the third quarter of 2010 increased in each revenue category.





**Table of Contents**

The increase in revenue from systems and other products that is due to volume for the third quarter of 2010 compared to the same quarter of 2009 was the result of higher sales of production systems and 3D printers. Revenue from systems and other products consisted of:

Production systems, which represented \$9.0 million, or 62%, of total systems revenue for the third quarter of 2010, compared to \$3.7 million, or 54%, for the third quarter of 2009; and  
3D printers, which made up the remaining \$5.5 million, or 38%, in the third quarter of 2010, compared to \$3.1 million, or 46%, in the third quarter of 2009, which represents a 74% increase. Compared to the second quarter of 2010, 3D printer revenue increased \$1.0 million, or 23%.

Due to the relatively high list price of certain systems, our customers' purchasing decisions may have a long lead time; combined with the overall low unit volume of systems sales in any particular period, the acceleration or delay of orders and shipments of a small number of systems from one period to another can significantly affect revenue reported for our systems sales for the period involved. Revenue reported for systems sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles.

Revenue from materials was also helped by the improvement in production systems sales, which are typically accompanied by significant initial materials purchases to charge up new systems and commence production, and by the continued expansion of systems installed over past periods. Sales of integrated materials represented 32% of total materials revenue in the third quarter of 2010 compared to 30% in the third quarter of 2009. Materials revenue increased compared to the third quarter of 2009 notwithstanding the fact that materials consumed by 3Dproparts were not included in our materials revenue line.

The increase in services revenue reflects revenue from 3Dproparts, which was introduced in the fourth quarter of 2009 to expand our paid parts services. Service revenue from 3Dproparts was \$5.3 million, or 41.6% of total service revenue.

At September 30, 2010 our backlog was approximately \$7.0 million, compared to backlogs of \$1.4 million at December 31, 2009 and \$1.7 million at September 30, 2009, respectively. Although production and delivery of our systems is generally not characterized by long lead times, the higher backlog at September 30, 2010 includes an order for multiple machines for future delivery. Additionally, 3Dproparts' lead time and backlog depends on whether 3Dproparts' orders are for rapid prototyping or longer-range production runs. The backlog at September 30, 2010 included \$1.5 million of 3Dproparts' orders.

In addition to changes in sales volumes, there are two other primary drivers of changes in revenues from one period to another: the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, and the impact of fluctuations in foreign currencies.

As used in this Management's Discussion and Analysis, the combined effect of changes in product mix and average selling prices relates to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our systems as the trend toward smaller, more economical systems has continued and the influence of new systems and materials on our operating results has grown. Our reporting systems are not currently configured to produce more quantitative information regarding the effect of price and mix changes on revenue.

**Change in third quarter revenue by geographic region**

Each geographic region contributed to our higher level of revenue in the third quarter of 2010. Table 2 sets forth the change in revenue by geographic area for the third quarter of 2010 compared to the third quarter of 2009:

**Table 2**

(Dollars in thousands)	U.S.		Europe		Asia-Pacific		Totals	
Revenue 3 <sup>rd</sup> quarter 2009	\$ 12,215	44.2%	\$ 10,927	39.4%	\$ 4,525	16.4%	\$ 27,667	100%
Change in revenue:								
Volume	7,595	62.2	10,193	93.2	1,567	34.6	19,355	70.0
Price/Mix	(1,664)	(13.6)	(2,853)	(26.1)	209	4.7	(4,308)	(15.6)

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Foreign currency translation			(1,457)	(13.3)	246	5.4	(1,211)	(4.4)
Net change	5,931	48.6	5,883	53.8	2,022	44.7	13,836	50.0
Revenue 3 <sup>rd</sup> quarter 2010	\$ 18,146	43.7%	\$ 16,810	40.5%	\$ 6,547	15.8%	\$ 41,503	100%

Revenue from U.S. operations increased by \$5.9 million or 48.6% to \$18.1 million in 2010 from \$12.2 million in the third quarter of 2009. The increase was due to higher volume, which was partially offset by the unfavorable combined effect of price and mix.

**Table of Contents**

Revenue from non-U.S. operations for the third quarter of 2010 increased by \$7.9 million or 51.2% to \$23.4 million from \$15.5 million for the third quarter of 2009. Revenue from non-U.S. operations as a percent of total revenue was 56.3% and 55.8%, respectively, for the third quarters of 2010 and 2009. The increase in non-U.S. revenue, excluding the effect of foreign currency translation, was 59.0% in the third quarter of 2010.

Revenue from European operations increased by \$5.9 million or 53.8% to \$16.8 million from \$10.9 million in the prior year period. This increase was due to a \$10.2 million increase in volume, partially offset by a \$2.9 million unfavorable combined effect of price and mix and a \$1.4 million unfavorable impact of foreign currency translation.

Revenue from Asia-Pacific operations increased by \$2.0 million or 44.7% to \$6.5 million from \$4.5 million in the prior year period due primarily to the favorable \$1.6 million increase in volume combined with a \$0.2 million favorable impact of foreign currency translation and \$0.2 million favorable price and mix.

**Gross profit and gross profit margins third quarter**

Table 3 sets forth gross profit and gross profit margin for our products and services for the third quarters of 2010 and 2009:

**Table 3**

	Quarter Ended September 30,			
	2010		2009	
(Dollars in thousands)	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
Systems and other products	\$ 5,261	36.3%	\$ 1,116	16.4%
Materials	8,716	61.2	7,523	57.3
Services	4,851	38.0	3,680	47.7
Total	\$ 18,828	45.4%	\$ 12,319	44.5%

On a consolidated basis, gross profit for the third quarter of 2010 increased by \$6.5 million to \$18.8 million from \$12.3 million in the third quarter of 2009, primarily as a result of higher sales from all revenue categories and helped by an increase in our gross profit margin.

Consolidated gross profit margin in the third quarter of 2010 improved by 0.9 percentage points to 45.4% of revenue from 44.5% of revenue for the 2009 quarter. The higher gross profit margin reflected improved overhead absorption due to higher sales. Gross margin expanded even though recurring revenue, which has higher gross margins, comprised a smaller percentage of total revenue compared to the third quarter of 2009. The 2010 gross profit margin was adversely affected by approximately 1.2 percentage points due to the previously disclosed negative impact on margin of sales of our V-Flash® Desktop Printer. The negative impact of V-Flash® sales on margin in the 2009 quarter was 4.1 percentage points.

Systems and other products gross profit for the third quarter of 2010 increased to \$5.3 million from \$1.1 million for the 2009 quarter. Gross profit margin for systems increased by 19.9 percentage points to 36.3% of revenue from 16.4% of revenue in the 2009 quarter. Gross profit and gross profit margin were positively impacted by higher revenue, improved overhead absorption and benefits from changes to our manufacturing strategy.

Materials gross profit for the third quarter of 2010 increased by \$1.2 million or 15.9% to \$8.7 million from \$7.5 million for the 2009 quarter, and gross profit margin for materials increased by 3.9 percentage points to 61.2% of revenue from 57.3% of revenue in the 2009 quarter. The increased gross profit and gross profit margin is due to the higher revenue and improved overhead absorption.

Gross profit for services for the third quarter of 2010 increased by \$1.2 million or 31.8% to \$4.9 million from \$3.7 million for the 2009 quarter, and gross profit margin for services decreased by 9.7 percentage points to 38.0% of revenue from 47.7% of revenue in the 2009 quarter. The increase in gross profit was due primarily to higher levels of revenue associated with our 3Dproparts business. The decline in gross profit margin for services is primarily due to lower levels of system upgrades in the 2010 quarter, as well as to higher 3Dproparts revenues in 2010 which carried a

lower gross profit margin, during the initial quarters following acquisition, of 26.1% for the quarter, compared to 46.5% for the other components of service revenue.

***Operating expenses***

As shown in Table 4, total operating expenses increased by \$2.5 million or 21.7% to \$13.7 million in the third quarter of 2010 from \$11.2 million in the third quarter of 2009. This increase consisted of \$2.6 million in higher selling, general and administrative expenses partially offset by \$0.2 million of lower research and development expenses, both of which are discussed below.

**Table of Contents****Table 4**

	Quarter Ended September 30,			
	2010		2009	
(Dollars in thousands)	Amount	% Revenue	Amount	% Revenue
Selling, general and administrative expenses	\$ 10,960	26.4%	\$ 8,362	30.2%
Research and development expenses	2,708	6.5	2,865	10.4
Total operating expenses	\$ 13,668	32.9%	\$ 11,227	40.6%

Selling, general and administrative expenses increased by \$2.6 million to \$11.0 million in the third quarter of 2010 compared to \$8.4 million in the third quarter of 2009, but decreased to 26.4% of revenue in 2010 compared to 30.2% for 2009. The increase was due primarily to a \$1.4 million increase in compensation costs due to higher commissions and staffing from our acquisitions and a \$1.1 million increase in legal fees.

Research and development expenses decreased by \$0.2 million or 5.5% to \$2.7 million in the third quarter of 2010 from \$2.9 million in the third quarter of 2009.

**Income from operations**

Our income from operations of \$5.2 million for the third quarter of 2010 improved from \$1.1 million in the third quarter of 2009. See *Gross profit and gross profit margins* and *Operating expenses* above.

The following table sets forth operating income (loss) by geographic area for the third quarters of 2010 and 2009:

**Table 5**

(Dollars in thousands)	Quarter Ended September 30,	
	2010	2009
Income (loss) from operations		
United States	\$ 2,295	\$ (584)
Germany	190	159
Other Europe	378	281
Asia Pacific	2,101	1,395
Subtotal	4,964	1,251
Inter-segment elimination	196	(159)
Total	\$ 5,160	\$ 1,092

With respect to the U.S., in 2010 and 2009, the changes in operating income by geographic area reflect the factors discussed above in *Gross profit and gross profit margins - third quarter* and *Operating expenses*.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. from 2009 to 2010 resulted primarily from changes in transfer pricing which is a function of revenue levels.

**Interest and other income (expense), net**

Interest and other income (expense), net increased to \$0.5 million of income in the third quarter of 2010 from \$0.1 million of expense in the 2009 quarter. The \$0.5 million of income in the third quarter of 2010 reflected a foreign currency gain of \$0.7 million and an insignificant amount of interest income in the third quarter of 2010, partially offset by \$0.1 million of interest expense.

We recognized \$0.1 million of expense in the third quarter of 2009 including \$0.2 million of interest expense and \$0.2 million of other expenses, which was partially offset by a \$0.3 million foreign currency gain, and an insignificant

amount of interest income.

***Provision for income taxes***

We recorded a provision for income taxes of \$0.3 million in the third quarter of 2010 and \$0.1 million in 2009. Our provisions for income taxes in both periods primarily reflects tax expense associated with taxes in non-U.S. jurisdictions.

**Table of Contents**

We utilized U.S. net operating loss carry forwards, which had a full valuation allowance against them, to eliminate any U.S. taxes. Absent the use of these net operating loss carry forwards, income tax expense would have been \$2.2 million and the income tax rate would have been 38.9 percent.

**Net income**

Our net income for the third quarter of 2010 improved to \$5.4 million, compared to \$0.9 million net income for the third quarter of 2009. The principal reasons for the improvement, which are discussed in more detail above, were:

the \$4.1 million improvement in our operating income; and

the \$0.5 million decrease in interest and other expense, net.

For the quarter ended September 30, 2010, average common shares for basic and diluted earnings per share were 23.1 million and 23.4 million, respectively, and basic and diluted earnings per share were \$0.23. For the quarter ended September 30, 2009, average common shares for basic and diluted earnings per share were 22.6 million and 22.7 million, respectively, and basic and diluted earnings per share were \$0.04.

**Results of Operations Nine Month Comparisons****Nine month comparison of revenue by class of product and service**

Table 6 sets forth our change in revenue by class of product and service for the first nine months of 2010 compared to the same period of 2009:

**Table 6**

(Dollars in thousands)	Systems and Other		Materials		Services		Totals	
	Products							
Revenue nine months 2009	\$ 17,566	23.0%	\$ 35,455	46.4%	\$ 23,382	30.6%	\$ 76,403	100%
Change in revenue:								
Volume								
Core products and services	6,975	39.7	9,697	27.4	8,423	36.0	25,095	32.9
New products and services	13,004	74.0	(1,332)	(3.8)	1,035	4.5	12,707	16.6
Price/Mix	(3,002)	(17.1)	(1,652)	(4.6)			(4,654)	(6.1)
Foreign currency translation	(582)	(3.3)	(346)	(1.0)	(350)	(1.5)	(1,278)	(1.7)
Net change	16,395	93.3	6,367	18.0	9,108	39.0	31,870	41.7
Revenue nine months 2010	\$ 33,961	31.4%	\$ 41,822	38.6%	\$ 32,490	30.0%	\$ 108,273	100%

We earn revenues from the sale of systems and other products, materials and services. On a consolidated basis, revenue for the first nine months of 2010 increased by \$31.9 million, or 41.7%, compared to the first nine months of 2009 as a result of improvements in each revenue category.

The increase in revenue from systems and other products that is due to volume for the first nine months of 2010 compared to the same period of 2009 was the result of higher overall system sales as follows:

Production systems, which represented \$19.2 million, or 57%, of total systems revenue for the first nine months of 2010, compared to \$9.5 million, or 54%, for the 2009 period; and

3D printers, which made up the remaining \$14.7 million, or 43%, in the first nine months of 2010, compared to \$8.1 million, or 46%, in the first nine months of 2009, which represents an increase of 82%.

Due to the relatively high list price of certain systems, our customers' purchasing decisions may have a long lead time; combined with the overall low unit volume of systems sales in any particular period, the acceleration or delay of orders and shipments of a small number of systems from one period to another can significantly affect revenue reported for our systems sales for the period involved. Revenue reported for systems sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles.





**Table of Contents**

Revenue from materials was also helped by the improvement in production systems sales, which are typically accompanied by significant initial materials purchases to charge up new systems and commence production, and by the continued expansion of systems installed over the past periods. Sales of integrated materials represented 33% of total materials revenue in the first nine months of 2010 compared to 32% in the first nine months of 2009. Materials revenue increased compared to the third quarter of 2009 notwithstanding the fact that materials consumed by 3Dproparts were not included in our materials revenue line.

The increase in services revenue reflects revenue from 3Dproparts, which was introduced in the fourth quarter of 2009 to expand our paid parts services, partially offset by a decrease in sales of system upgrades. Service revenue from 3Dproparts was \$11.5 million, or 35.4% of total service revenue.

In addition to changes in sales volumes, there are two other primary drivers of changes in revenues from one period to another: the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, and the impact of fluctuations in foreign currencies.

As used in this Management's Discussion and Analysis, the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, relates to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our systems as the trend toward smaller, more economical systems has continued and the influence of new systems and materials on our operating results has grown. Our reporting systems are not currently configured to produce more quantitative information regarding the effect of price and mix changes on revenue.

**Change in nine month revenue by geographic region**

Each geographic region contributed to our higher level of revenue in the first nine months of 2010. Table 7 sets forth the change in revenue by geographic area for the first nine months of 2010 compared to the first nine months of 2009:

**Table 7**

<b>(Dollars in thousands)</b>	<b>U.S.</b>		<b>Europe</b>		<b>Asia-Pacific</b>		<b>Totals</b>	
Revenue nine months, 2009	\$ 34,425	45.1%	\$ 31,667	41.4%	\$ 10,311	13.5%	\$ 76,403	100%
Change in revenue:								
Volume	16,415	47.6	16,670	52.6	4,716	45.7	37,801	49.5
Price/Mix	(1,150)	(3.3)	(3,678)	(11.6)	175	1.7	(4,653)	(6.1)
Foreign currency translation			(1,708)	(5.4)	430	4.2	(1,278)	(1.7)
Net change	15,265	44.3	11,284	35.6	5,321	51.6	31,870	41.7
Revenue nine months, 2010	\$ 49,690	45.9%	\$ 42,951	39.7%	\$ 15,632	14.4%	\$ 108,273	100%

Revenue from U.S. operations improved by \$15.3 million or 44.3% to \$49.7 million in 2010 from \$34.4 million in the first nine months of 2009. The increase was due to a \$16.4 million increase in volume, partially offset by a \$1.1 million unfavorable combined effect of price and mix.

Revenue from non-U.S. operations for the first nine months of 2010 increased by \$16.6 million or 39.6% to \$58.6 million from \$42.0 million for the first nine months of 2009. Revenue from non-U.S. operations as a percentage of total revenue was 54.1% and 54.9%, respectively, for the first nine months of 2010 and 2009. The increase in non-U.S. revenue, excluding the effect of foreign currency translation, was 42.6% in the first nine months of 2010.

Revenue from European operations increased by \$11.3 million or 35.6% to \$43.0 million from \$31.7 million in the prior year period. This increase was due to a \$16.7 million increase in volume, partially offset by a \$3.7 million unfavorable combined effect of price and mix and a \$1.7 million unfavorable impact of foreign currency translation.

Revenue from Asia-Pacific operations improved by \$5.3 million or 51.6% to \$15.6 million from \$10.3 million in the prior year period due primarily to the favorable \$4.7 million increase in volume, a \$0.2 million favorable combined effect of price and mix and a \$0.4 million favorable foreign currency translation.

**Gross profit and gross profit margins nine months**

Table 8 sets forth gross profit and gross profit margin for our products and services for the first nine months of 2010 and 2009:

**Table of Contents****Table 8**

(Dollars in thousands)	Nine Months Ended September 30,			
	2010		2009	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
Systems and other products	\$ 12,101	35.6%	\$ 3,059	17.4%
Materials	25,301	60.5	21,273	60.0
Services	11,703	36.0	9,296	39.8
Total	\$ 49,105	45.4%	\$ 33,628	44.0%

On a consolidated basis, gross profit for the first nine months of 2010 increased by \$15.5 million to \$49.1 million from \$33.6 million in the first nine months of 2009, primarily as a result of higher sales from all revenue categories and further helped by an increase in our gross profit margin.

Consolidated gross profit margin in the first nine months of 2010 increased by 1.4 percentage points to 45.4% of revenue from 44.0% of revenue for the 2009 period. The higher gross profit margin reflected improved overhead absorption due to higher sales and reflected that recurring revenue, which has higher gross margins, comprised a smaller percentage of total revenue compared to the first nine months of 2009. The 2010 gross profit margin was adversely affected by approximately 1.4 percentage points due to the previously disclosed negative impact on margin of sales of our V-Flash® Desktop Printer. The negative impact of V-Flash® sales on margin in the 2009 period was 4.1 percentage points.

Systems and other products gross profit for the first nine months of 2010 increased to \$12.1 million from \$3.1 million for the 2009 period. Gross profit margin for systems increased by 18.2 percentage points to 35.6% of revenue from 17.4% of revenue in the 2009 period. Gross profit was positively impacted by higher revenue and benefits from changes to our manufacturing strategy.

Materials gross profit for the first nine months of 2010 increased by \$4.0 million or 18.9% to \$25.3 million from \$21.3 million for the 2009 period, and gross profit margin for materials increased by 0.5 percentage points to 60.5% of revenue from 60.0% of revenue in the 2009 period. The increased gross profit is attributed to the higher revenue and improved overhead absorption, partially offset by negative impact from foreign currency exchange rates.

Gross profit for services for the first nine months of 2010 increased by \$2.4 million or 25.9% to \$11.7 million from \$9.3 million for the 2009 period, and gross profit margin for services decreased by 3.8 percentage points to 36.0% of revenue from 39.8% of revenue in the 2009 period. The decline in gross profit margin for services is primarily due to lower levels of system upgrades in the first nine months of 2010, as well as higher 3Dparts revenues in 2010, which had a lower gross profit margin, during the initial quarters following acquisitions, of 18.6% compared to 45.6% for the other components of service revenue.

**Operating expenses**

As shown in Table 9, total operating expenses increased by \$2.9 million or 8.3% to \$37.9 million in the first nine months of 2010 from \$35.0 million in the first nine months of 2009. The increase consisted of \$3.5 million in higher selling, general and administrative expenses partially offset by \$0.6 lower of research and development expenses, both of which are discussed below.

**Table 9**

(Dollars in thousands)	Nine Months Ended September 30,			
	2010		2009	
	Amount	% Revenue	Amount	% Revenue
Selling, general and administrative expenses	\$ 29,894	27.6%	\$ 26,368	34.5%

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Research and development expenses	7,979	7.4	8,618	11.3
Total operating expenses	\$ 37,873	35.0%	\$ 34,986	45.8%

Selling, general and administrative expenses increased by \$3.5 million to \$29.9 million in the first nine months of 2010 compared to \$26.4 million in the first nine months of 2009, but decreased to 27.6% of revenue in 2010 compared to 34.5% in 2009. This increase was due primarily to a \$2.9 million increase in compensation costs due to higher commissions and staffing from our acquisitions. In addition, the increase was also due to a \$1.4 million increase in legal expenses associated with ongoing litigation with DSM Desotech and EnvisionTEC as described in further detail in Note 14 of the unaudited condensed consolidated financial statements.

Research and development expenses decreased by \$0.6 million or 7.4% to \$8.0 million in the first nine months of 2010 from \$8.6 million in the same period in 2009, principally due to a \$0.4 million decrease in outside consulting services.

**Table of Contents*****Income (loss) from operations***

Our income from operations of \$11.2 million for the nine months ended September 30, 2010 improved from a loss of \$1.4 million in the nine months ended September 30, 2009. See *Gross profit and gross profit margins and Operating expenses* above.

The following table sets forth operating income (loss) by geographic area for the first nine months of 2010 and 2009:

**Table 10**

<b>(Dollars in thousands)</b>	<b>Nine Months Ended September</b>	
	<b>2010</b>	<b>2009</b>
Income (loss) from operations		
United States	\$ 4,413	\$ (5,665)
Germany	691	615
Other Europe	1,280	927
Asia Pacific	4,481	2,528
Subtotal	10,864	(1,595)
Inter-segment elimination	367	237
Total	\$ 11,232	\$ (1,358)

With respect to the U.S., in 2010 and 2009, the changes in operating income (loss) reflects the factors discussed above in *Gross profit and gross profit margins nine months and Operating expenses*.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income (loss) in our operations outside the U.S. from 2009 to 2010 resulted primarily from changes in transfer pricing which is a function of revenue.

Operating income from our Asia-Pacific operations for 2009 includes a \$0.5 million bad debt provision related to 2009 sales to our largest Japanese customer, which filed for court protection in February 2009. Receivables prior to the filing were fully reserved, while sales subsequent to the filing have been on a cash basis.

***Interest and other income (expense), net***

Interest and other income (expense), net of \$0.3 million in net expense for the first nine months of 2010 compared with \$0.5 million of net expense in 2009.

The \$0.3 million of net expense in the first nine months of 2010 reflected \$0.4 million of interest expense and \$0.1 million of foreign exchange gain and an insignificant amount of interest income, compared with \$0.5 million of expense in the first nine months of 2009, which comprised \$0.5 million of interest expense and \$0.2 million of other expense, partially offset by \$0.1 million of other income and \$0.1 million of foreign currency gain.

***Provision for income taxes***

We recorded a \$0.8 million provision for income taxes for the nine months ended September 30, 2010 and \$0.6 million for the nine months ended September 30, 2009. Our provision for income taxes primarily reflects income taxes in foreign jurisdictions.

We utilized U.S. net operating loss carry forwards, which had a full valuation allowance against them to eliminate any U.S. taxes. Absent the use of these net operating loss carry forwards, income tax expense would have been \$4.1 million and the income tax rate would have been 38.0 percent.

***Net income (loss)***

We moved from a net loss of \$2.5 million for the first nine months of 2009 to a net income of \$10.1 for the first nine months of 2010. The principal reason for the improvement, which is discussed in detail above, was a \$12.6 million improvement in operating income.

For the nine months ended September 30, 2010, average common shares for basic and diluted earnings per share were 23.0 million and 23.3 million, respectively, and basic and diluted earnings per share were \$0.44 and \$0.43,

respectively. For the nine months ended September 30, 2009, average common shares for basic and diluted earnings per share was 22.5 million and basic and diluted loss per share were \$0.11.

**Table of Contents****Financial Condition and Liquidity****Table 11**

<b>(Dollars in thousands)</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Cash and cash equivalents	\$ 33,811	\$ 24,913
Working capital	\$ 45,092	\$ 36,718
Total 3D Systems stockholders' equity	\$ 120,605	\$ 104,697

Our unrestricted cash and cash equivalents increased by \$8.9 million to \$33.8 million at September 30, 2010 from \$24.9 million at December 31, 2009. This increase principally resulted from the net \$18.5 million of cash provided by operating activities, consisting of \$6.6 million of non-cash charges that were included in our income, our \$10.1 million net income and \$1.8 million of cash provided by net changes in operating accounts. We used \$10.3 million of cash in investing activities and generated \$0.1 million of cash from financing activities in the first nine months of 2010. See *Cash flow* and *Capitalized lease obligations* below.

Cash equivalents comprise funds held in money market instruments and are reported at their current carrying value which approximates fair value due to the short-term nature of these instruments. We minimize our credit risk by investing primarily in investment grade, liquid instruments and limit exposure to any one issuer depending upon credit quality.

Our net working capital increased by \$8.4 million to \$45.1 million at September 30, 2010 from \$36.7 million at December 31, 2009, primarily due to the factors discussed below.

Accounts receivable, net, increased by \$2.8 million to \$26.6 million at September 30, 2010 from \$23.8 million at December 31, 2009. Our gross accounts receivable increased by \$2.6 million from December 31, 2009 to September 30, 2010. Our changing business model, which includes 3Dparts, and increasing materials sales, both of which are generally sold on terms make up a larger percent of our total sales. Even with an increased portion of sales on credit terms, due to our strong focus on receivables we have been able to decrease our days sales outstanding to 59 days at September 30, 2010 from 60 days at December 31, 2009 and reduce accounts receivable more than 90 days past due to 5.8% of gross receivables at September 30, 2010 compared to 5.9% of gross receivables at December 31, 2009.

Accounts payable increased by \$1.0 million to \$14.0 million at September 30, 2010 from \$13.0 million at December 31, 2009. The increase primarily relates to the increase in inventories, which is explained below, and the normal timing of our scheduled expense payments.

Inventories increased by \$2.4 million to \$20.8 million at September 30, 2010 from \$18.4 million at December 31, 2009. This increase resulted primarily from a \$1.7 million increase in finished goods inventory due to the timing of sales and revenue recognition at quarter end, which also impacts our backlog, and a \$0.4 million increase in raw materials due to timing of sales and deliveries. We maintained \$2.4 million of inventory reserves at September 30, 2010 and \$2.7 million of such reserves at December 31, 2009.

With the outsourcing of substantially all our production equipment assembly and refurbishment activities, the majority of our inventory consists of finished goods, including primarily systems, materials and service parts, as our third-party assemblers have taken over supply chain responsibility for the assembly and refurbishment of production systems. As a result, we generally do not hold in inventory most parts for production systems manufacturing or refurbishment. This trend is partially offset by an increase in raw materials and spare parts used in our in-house manufacturing and support service for 3D printers.

Customer deposits increased to \$2.6 million at September 30, 2010 from \$0.6 million at December 31, 2009 due to a \$2.1 million customer deposit received on an order for multiple machines for future delivery.

The changes in the first nine months of 2010 that make up the other components of working capital not discussed above arose in the ordinary course of business.

Differences between the amounts of working capital item changes in the cash flow statement and the balance sheet changes for corresponding items are primarily the result of foreign currency translation adjustments.



We presently do not have any committed short-term credit facilities, and intend to continue to rely upon our unrestricted cash and cash flow from operations to meet our cash requirements for working capital, capital expenditures and investments. As part of our business strategy, we may use cash to acquire additional businesses, which could have a material impact on our capital resources. While we believe that our ongoing actions to reduce our operating costs, improve our gross profit margin and manage working capital should continue to benefit us in 2010 and future years, there can be no assurance that these actions will be sufficient.

**Table of Contents**

Subsequent to the end of the third quarter of 2010, we utilized \$9.7 million, based on exchange rates at the date of each acquisition, of cash in connection with the acquisition of Bits From Bytes Limited and Provel, S.r.l. See Note 2 to the unaudited condensed consolidated financial statements.

*Contractual Commitments*

Our principal contractual commitments consists of the capital leases on our Rock Hill facility, which are discussed in greater detail below.

In addition, in certain of our recent acquisitions we are obligated for deferred purchase price payments totaling \$1.3 million due in 2010 and \$4.4 million, based on the exchange rate at the date of acquisition, due in 2011. Certain of these acquisitions also contain earn-out provisions under which the sellers of the acquired businesses can earn additional amounts.

*Cash flow*

Table 12 summarizes the cash provided by or used in operating activities, investing activities and financing activities, as well as the effect of changes in foreign currency exchange rates on cash, for the first nine months of 2010 and 2009.

**Table 12**

<b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
Cash provided by operating activities	\$ 18,472	\$ 2,235
Cash used in investing activities	(10,342)	(749)
Cash provided by financing activities	103	228
Effect of exchange rate changes on cash	665	103
Net increase in cash and cash equivalents	\$ 8,898	\$ 1,817

*Cash flow from operations*

For the third quarter of 2010, our operating activities, which is primarily composed of net income plus the effects of non-cash items and changes in working capital, provided \$11.0 million of net cash, compared to \$2.7 million in the second quarter of 2009.

For the nine months ended September 30, 2010, our operating activities provided \$18.5 million of net cash. This source of cash consisted of our \$10.1 million net income, \$6.6 million of non-cash items and \$1.8 million of cash provided by changes in operating accounts.

For the nine months ended September 30, 2009, our operating activities provided \$2.2 million of net cash. This source of cash consisted of \$6.5 million of non-cash items included in our net loss, \$1.8 million of cash used in changes in operating accounts and our \$2.5 million net loss.

*Cash flow from investing activities*

Net cash used in investing activities in the first nine months of 2010 increased to \$10.3 million from \$0.7 million for the first nine months of 2009. The increase was primarily due to \$9.1 million of cash paid for 3Dproparts acquisitions.

*Cash flow from financing activities*

Net cash provided by financing activities decreased to \$0.1 million for the nine months ended September 30, 2010 compared to \$0.2 million in the 2009 period.

*Capitalized lease obligations*

Our principal contractual commitments consisted of capitalized lease obligations of \$8.3 million at September 30, 2010. Our capitalized lease obligations decreased from \$8.5 million at December 31, 2009 primarily due to scheduled payments of principal on capital lease installments.

**Table of Contents**

Outstanding capitalized lease obligations relate to two lease agreements that we entered into during 2006 with respect to our Rock Hill facility, one of which covers the facility itself and the other of which covers certain furniture and fixtures that we acquired for use in the facility. The carrying values of the headquarters facility and the furniture and fixture leases at September 30, 2010 and December 31, 2009 were \$8.3 million and \$8.5 million, respectively. Our outstanding capitalized lease obligations at September 30, 2010 and December 31, 2009 were as follows:

**Table 13**

<b>(Dollars in thousands)</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Capitalized lease obligations:		
Current portion of capitalized lease obligations	\$ 226	\$ 213
Capitalized lease obligations, long-term portion	8,084	8,254
Total capitalized lease obligations	\$ 8,310	\$ 8,467

**Off-balance sheet arrangements**

We have no off-balance sheet financing arrangements and do not utilize any structured debt, special purpose or similar unconsolidated entities for liquidity or financing purposes.

**Financial instruments**

We conduct business in various countries using both the functional currencies of those countries and other currencies to effect cross border transactions. As a result, we are subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, we endeavor to match assets and liabilities in the same currency on our balance sheet and those of our subsidiaries in order to reduce these risks. We also, when we consider it to be appropriate, enter into foreign currency contracts to hedge exposures arising from those transactions.

We do not hedge for trading or speculative purposes, and our foreign currency contracts are generally short-term in nature, typically maturing in 90 days or less. We have elected not to prepare and maintain the documentation to qualify for hedge accounting treatment under ASC 815, Derivatives and Hedging, and therefore, we recognize all gains and losses (realized or unrealized) in interest and other income (expense), net in our unaudited condensed consolidated statements of operations.

The net fair value of all foreign exchange contracts at December 31, 2009 reflected a nominal unrealized loss at December 31, 2009. The foreign currency contracts outstanding at December 31, 2009 expired at various times between January 6, 2010 and February 3, 2010. See Note 7 of the unaudited condensed consolidated financial statements.

Changes in the fair value of derivatives are recorded in interest and other income (expense), net, in our unaudited condensed consolidated statements of operations. Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid and other current assets or in accrued liabilities in our unaudited condensed consolidated balance sheets.

The total impact of foreign currency related items on our unaudited condensed consolidated statements of operations for the nine months ended September 30, 2010 and September 30, 2009 was a net gain of \$0.1 million for both periods.

**3D Systems stockholders equity**

3D Systems stockholders equity increased by \$15.9 million to \$120.6 million at September 30, 2010 from \$104.7 million at December 31, 2009. This increase includes the following:

\$10.1 million net income reported for the first nine months of 2010;

\$3.9 million of stock issued for acquisitions;

\$1.1 million of stock compensation expense recorded in stockholders equity in accordance with ASC 738, Compensation Stock Compensation during the first nine months of 2010; and

\$0.6 million of foreign currency translation adjustments.

**Table of Contents**

**Recent Accounting Pronouncements**

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our unaudited consolidated financial statements, see Note 1 to the unaudited condensed consolidated financial statements.

**Critical Accounting Policies and Significant Estimates**

For a discussion of our critical accounting policies and estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Significant Estimates in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Forward-Looking Statements**

Certain statements made in this Form 10-Q that are not statements of historical or current facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the cautionary statements and risk factors set forth below as well as other statements made in the Form 10-Q that may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results expressed or implied by such forward-looking statements.

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or that includes terms such as believes, belief, expects, intends, anticipates or be uncertain and forward-looking. Forward-looking statements may include comments as to our beliefs and expectations as to future events and trends affecting our business. Forward-looking statements are based upon management's current expectations concerning future events and trends and are necessarily subject to uncertainties, many of which are outside our control. The factors stated under the heading Cautionary Statements and Risk Factors set forth below and those described in our other SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2009, as well as other factors, could cause actual results to differ materially from those reflected or predicted in forward-looking statements.

Any forward-looking statements are based on management's beliefs and assumptions, using information currently available to us. We assume no obligation, and do not intend, to update these forward-looking statements.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those reflected in or suggested by forward-looking statements. Any forward-looking statement you read in this Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified or referred to in this Form 10-Q and our other SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2009, which could cause actual results to differ from those referred to in forward-looking statements.

**Cautionary Statements and Risk Factors**

We recognize that we are subject to a number of risks and uncertainties that may affect our future performance. The risks and uncertainties described in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2009 are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of these risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2009 also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

For a discussion of market risks at December 31, 2009, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2009. During the first nine months of 2010, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2009.

**Item 4. Controls and Procedures.**

**Evaluation of disclosure controls and procedures**

As of September 30, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act. )) pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. These controls and procedures were designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures. Based on this evaluation, including an evaluation of the rules referred to above in this Item 4, management has concluded that our disclosure controls and procedures were effective as of September 30, 2010 to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures.

**Changes in Internal Controls over Financial Reporting**

There were no material changes in our internal controls over financial reporting during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The information set forth in Note 14 of the unaudited condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 6. Exhibits.**

The following exhibits are included as part of this filing and incorporated herein by this reference:

- 3.1 Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 3.1 to Form 8-B filed on August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.)
- 3.2 Amendment to Certificate of Incorporation filed on May 23, 1995. (Incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-2/A, filed on May 25, 1995.)
- 3.3 Certificate of Designation of Rights, Preferences and Privileges of Preferred Stock. (Incorporated by reference to Exhibit 2 to Registrant's Registration Statement on Form 8-A filed on January 8, 1996.)
- 3.4 Certificate of Designation of the Series B Convertible Preferred Stock, filed with the Secretary of State of Delaware on May 2, 2003. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed on May 7, 2003.)
- 3.5 Certificate of Elimination of Series A Preferred Stock filed with the Secretary of State of Delaware on March 4, 2004. (Incorporated reference to Exhibit 3.6 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.)
- 3.6 Certificate of Elimination of Series B Preferred Stock filed with the Secretary of State of Delaware on September 9, 2006. (Incorporated reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on September 9, 2006.)
- 3.7 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 19, 2004. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, filed on August 5, 2004.)
- 3.8 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 17, 2005. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed on August 1, 2005.)
- 3.9 Certificate of Designations, Preferences and Rights of Series A Preferred Stock, filed with the Secretary of State of Delaware on December 9, 2008. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on December 9, 2008.)
- 3.10 Amended and Restated By-Laws. (Incorporated by reference to Exhibit 3.2 of Registrant's Current Report on Form 8-K filed on December 1, 2006.)
- 10.1 Charles W. Hull consulting arrangement (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q filed on July 29, 2010.)

- 10.2 Kevin P. McAlea severance arrangement. (Incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q filed on July 29, 2010.)
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated October 28, 2010.
- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated October 28, 2010.
- 32.1 Certification of Principal Executive Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated October 28, 2010.
- 32.2 Certification of Principal Financial Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated October 28, 2010.



**Table of Contents**

**SIGNATURE**

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.

3D Systems Corporation

By: /s/ Damon J. Gregoire  
Damon J. Gregoire  
*Senior Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting Officer)  
(Duly Authorized Officer)*

Date: October 28, 2010