

3D SYSTEMS CORP  
Form 10-Q  
July 29, 2010

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**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 June 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  No

**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 July 22, 2010: 23,123,698**

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**3D SYSTEMS CORPORATION**  
**Quarterly Report on Form 10-Q for the**  
**Quarter Ended June 30, 2010**  
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**3D SYSTEMS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

<i>(in thousands, except par value)</i>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,878	\$ 24,913
Accounts receivable, net of allowance for doubtful accounts of \$1,443 (2010) and \$1,790 (2009)	22,893	23,759
Inventories, net of reserves of \$2,406 (2010) and \$2,693 (2009)	22,011	18,378
Prepaid expenses and other current assets	1,823	2,415
Deferred income tax assets	598	634
Restricted cash	54	54
Total current assets	73,257	70,153
Property and equipment, net	25,144	24,789
Intangible assets, net	6,710	3,634
Goodwill	48,858	48,730
Other assets, net	2,810	3,097
Total assets	\$ 156,779	\$ 150,403
 <b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of capitalized lease obligations	\$ 219	\$ 213
Accounts payable	14,755	12,994
Accrued and other liabilities	9,683	11,114
Customer deposits	594	627
Deferred revenue	8,072	8,487
Total current liabilities	33,323	33,435
Long-term portion of capitalized lease obligations	8,145	8,254
Other liabilities	3,525	3,944
Total liabilities	44,993	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; 23,124 (2010) and 22,774 (2009) issued	23	23
Additional paid-in capital	181,319	177,682
Treasury stock, at cost; 84 shares (2010) and 74 shares (2009)	(143)	(134)
Accumulated deficit	(72,736)	(77,491)

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Accumulated other comprehensive income	3,323	4,617
Total 3D Systems stockholders' equity	111,786	104,697
Non-controlling interest		73
Total equity	111,786	104,770
Total liabilities and equity	\$ 156,779	\$ 150,403

See accompanying notes to condensed consolidated financial statements.

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

<i>(in thousands, except per share amounts)</i>	<b>Quarter Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Revenue:				
Products	\$ 24,645	\$ 17,584	\$ 47,042	\$ 33,073
Services	10,499	7,121	19,729	15,663
Total revenue	35,144	24,705	66,771	48,736
Cost of sales:				
Products	12,614	9,443	23,617	17,380
Services	6,574	4,432	12,877	10,047
Total cost of sales	19,188	13,875	36,494	27,427
Gross profit	15,956	10,830	30,277	21,309
Operating expenses:				
Selling, general and administrative	9,776	8,818	18,934	18,006
Research and development	2,766	2,855	5,271	5,753
Total operating expenses	12,542	11,673	24,205	23,759
Income (loss) from operations	3,414	(843)	6,072	(2,450)
Interest and other expense, net	430	260	834	487
Income (loss) before income taxes	2,984	(1,103)	5,238	(2,937)
Provision for income taxes	247	210	483	460
Net income (loss)	2,737	(1,313)	4,755	(3,397)
Less: Net income attributable to non-controlling interest		4		4
Net income (loss) attributable to 3D Systems	\$ 2,737	\$ (1,317)	\$ 4,755	\$ (3,401)
Earnings (loss) per share basic	\$ 0.12	\$ (0.06)	\$ 0.21	\$ (0.15)
Earnings (loss) per share diluted	\$ 0.12	\$ (0.06)	\$ 0.20	\$ (0.15)

See accompanying notes to condensed consolidated financial statements.

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

<i>(in thousands)</i>	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income (loss)	\$ 4,755	\$ (3,397)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	37	140
Depreciation and amortization	3,429	3,019
Provision (benefit) for bad debts	(157)	879
Stock-based compensation	789	731
Loss (gain) on the disposition of property and equipment	18	(21)
Changes in operating accounts:		
Accounts receivable	16	7,725
Inventories	(4,457)	1,827
Prepaid expenses and other current assets	664	(144)
Accounts payable	2,102	(5,335)
Accrued liabilities	(96)	(1,161)
Customer deposits	1	(553)
Deferred revenue	8	(1,448)
Other operating assets and liabilities	329	55
Net cash provided by operating activities	7,438	2,317
Cash flows used in investing activities:		
Purchases of property and equipment	(434)	(654)
Additions to license and patent costs	(192)	(83)
Proceeds from disposition of property and equipment	6	26
Acquisition of businesses	(5,600)	
Net cash used in investing activities	(6,220)	(711)
Cash flows provided by financing activities:		
Stock option and restricted stock proceeds	238	232
Repayment of long-term debt	(105)	(96)
Repayment of short-term borrowings		(3,085)
Restricted cash		3,204
Net cash provided by financing activities	133	255
Effect of exchange rate changes on cash	(386)	4
Net increase in cash and cash equivalents	965	1,865
Cash and cash equivalents at the beginning of the period	24,913	22,164



Cash and cash equivalents at the end of the period	\$ 25,878	\$ 24,029
<b>Supplemental Cash Flow Information:</b>		
Interest payments	\$ 297	\$ 324
Income tax payments (receipts)	275	(480)
Non-cash items:		
Transfer of equipment from inventory to property and equipment, net(a)	1,323	47
Transfer of equipment to inventory from property and equipment, net(b)	392	230
Stock issued for acquisitions of businesses	2,600	

(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.

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

	Equity Attributable to 3D Systems Stockholders										
	Common Stock				Accumulated Total Equity 3D Attributable						
	Shares	Par	Additional		Treasury		Accumulated	Comprehensive	Stockholders'	Non-controlling	Total
		Value	Paid-in	Capital	Share	Amount					
<i>(in thousands, except par value)</i>		<b>\$0.001</b>									
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	81	(a)	82	10	(9)			73		73	
Stock-based compensation expense	18		789					789		789	
Issuance of stock for acquisitions	235	(a)	2,600					2,600		2,600	
Net income						4,755		4,755		4,755	
Acquisition of non-controlling interest									(73)	(73)	
Loss on pension plan unrealized							(20)	(20)		(20)	
Foreign currency translation adjustment							(1,274)	(1,274)		(1,274)	
Balance at June 30, 2010	23,124	\$ 23	\$ 181,319	84	\$(143)	\$(72,736)	\$ 3,323	\$ 111,786	\$	\$ 111,786	

(a) Amounts not shown due to rounding.

See accompanying notes to condensed consolidated financial statements.

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

<i>(in thousands)</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss) attributable to 3D Systems	\$ 2,737	\$ (1,317)	\$ 4,755	\$ (3,401)
Net income attributable to non-controlling interest		4		4
Net income (loss)	2,737	(1,313)	4,755	(3,397)
Other comprehensive income (loss):				
Unrealized gain (loss) on pension obligation	(13)	10	(20)	
Foreign currency translation adjustments	(760)	1,189	(1,274)	(551)
Comprehensive income (loss), net	\$ 1,964	\$ (114)	\$ 3,461	\$ (3,948)

See accompanying notes to condensed consolidated financial statements.

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**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 of 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 six months ended June 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 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, no material recognizable subsequent events were identified. See Note 15 for a description of subsequent events that are not significant to the Company's financial statements.

*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 June 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

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June 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****(2) Acquisitions**

On February 16, 2010, the Company acquired the assets of Moeller Design and Development, Inc. ( Moeller Design ) in Seattle, Washington, 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. 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, 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 an option to enable the Company to purchase the facility.

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

<i>(in thousands)</i>	<b>2010</b>
Fixed assets	\$ 2,131
Intangible assets	4,388
Other assets, net of liabilities assumed	718
Gain from bargain purchase	(37)
Net assets acquired	\$ 7,200

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. The Company is in the process of integrating CEP into its 3Dparts service. 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 and other intangibles identified as of the acquisition date, with any excess to be recorded as goodwill. Accordingly this transaction will be recorded in the third quarter of 2010.

**(3) Inventories**

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

<i>(in thousands)</i>	<b>2010</b>	<b>2009</b>
Raw materials	\$ 2,907	\$ 2,294
Work in process	201	253
Finished goods and parts	21,309	18,524

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Total cost	24,417	21,071
Less: Reserves	(2,406)	(2,693)
Inventories, net	\$ 22,011	\$ 18,378

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

Property and equipment at June 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	25,174	23,418	3-7
Capitalized software ERP	3,123	3,096	5
Office furniture and equipment	3,310	3,358	5
Leasehold improvements	5,434	4,941	Life of lease
Rental equipment	377	1,079	5
Construction in progress	1,133	1,243	