

3D SYSTEMS CORP  
Form 10-K  
February 25, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2012**

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

**Commission file number 001-34220**

**3D SYSTEMS CORPORATION**

**(Exact name of Registrant as specified in our charter)**

Edgar Filing: 3D SYSTEMS CORP - Form 10-K

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4431352**  
(I.R.S. Employer

Identification No.)

**333 Three D Systems Circle**

**Rock Hill, SC 29730**

(Address of principal executive offices and zip code)

**(803) 326-3900**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class                       | Name of Each Exchange on Which Registered |
|-------------------------------------------|-------------------------------------------|
| Common stock, par value \$0.001 per share | The New York Stock Exchange               |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐ (Do not check if smaller reporting company) 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 ☒

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 29, 2012 was \$1,722,513,557. For purposes of this computation, it has been assumed that the shares beneficially held by directors and officers of the registrant were held by affiliates. This assumption is not to be deemed an admission by these persons that they are affiliates of the registrant.

The number of outstanding shares of the registrant's common stock as of February 15, 2013 was 61,382,789.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's definitive proxy statement for its 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

**Table of Contents**

**3D SYSTEMS CORPORATION**

**Annual Report on Form 10-K for the**

**Year Ended December 31, 2012**

**Table of Contents**

|                        |                                                                                                                                                          |    |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| <b><u>PART I</u></b>   |                                                                                                                                                          | 2  |
| Item 1.                | <u>Business</u>                                                                                                                                          | 2  |
| Item 1A.               | <u>Risk Factors</u>                                                                                                                                      | 14 |
| Item 1B.               | <u>Unresolved Staff Comments</u>                                                                                                                         | 24 |
| Item 2.                | <u>Properties</u>                                                                                                                                        | 24 |
| Item 3.                | <u>Legal Proceedings.</u>                                                                                                                                | 24 |
| Item 4.                | <u>Mine Safety Disclosures</u>                                                                                                                           | 24 |
| <b><u>PART II</u></b>  |                                                                                                                                                          | 25 |
| Item 5.                | <u>Market for Registrant's Common Equity, Related Stockholder Matters, Issuance of Unregistered Securities and Issuer Purchases of Equity Securities</u> | 25 |
| Item 6.                | <u>Selected Financial Data</u>                                                                                                                           | 27 |
| Item 7.                | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                                             | 29 |
| Item 7A.               | <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                                                                        | 54 |
| Item 8.                | <u>Financial Statements and Supplementary Data</u>                                                                                                       | 55 |
| Item 9.                | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                                                              | 55 |
| Item 9A.               | <u>Controls and Procedures</u>                                                                                                                           | 56 |
| Item 9B.               | <u>Other Information</u>                                                                                                                                 | 57 |
| <b><u>PART III</u></b> |                                                                                                                                                          | 57 |
| Item 10.               | <u>Directors, Executive Officers and Corporate Governance</u>                                                                                            | 57 |
| Item 11.               | <u>Executive Compensation</u>                                                                                                                            | 57 |
| Item 12.               | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>                                                    | 57 |
| Item 13.               | <u>Certain Relationships and Related Transactions and Director Independence</u>                                                                          | 58 |
| Item 14.               | <u>Principal Accounting Fees and Services</u>                                                                                                            | 58 |
| <b><u>PART IV</u></b>  |                                                                                                                                                          | 59 |
| Item 15.               | <u>Exhibits, Financial Statement Schedules</u>                                                                                                           | 59 |

---

**Table of Contents**

**PART I**

**Item 1. Business**

**General**

3D Systems Corporation ( 3D Systems or the Company ) is a holding company incorporated in Delaware that operates through subsidiaries in the United States, Europe and the Asia-Pacific region, and distributes its products in those areas as well as into other parts of the world. We are a leading global provider of 3D content-to-print solutions including 3D printers, print materials, on-demand custom parts services and 3D authoring solutions for professionals and consumers. We also provide scanners for a variety of medical and mechanical X-Ray film digital archiving. Our expertly integrated solutions replace and complement traditional methods and reduce the time and cost of designing new products. Our products are used to rapidly design, communicate, prototype and produce real, functional parts.

3D printers can print almost anything from personalized medical devices to functional airplane and car parts, from individualized accessories to customized jewelry and toys. Over the past decade complete industries transformed their design-to- manufacturing processes using 3D content-to-print solutions. Companies using 3D printing have the freedom to create and manufacture customized products because there is no additional cost for complexity and uniqueness. Instead of investing in expensive tooling for mass production, incurring long lead-times and costly freight charges to ship products around the world, customers can use 3D printing to mass customize and locally print what they need, when they need it and in a more cost effective way, while significantly reducing undesired environmental impacts of traditional manufacturing.

We pioneered 3D printing and digital manufacturing with the invention of stereolithography and the universally used .stl file format over 25 years ago and subsequently developed selective laser sintering, multi-jet modeling and film transfer imaging. Over the past decade many companies enhanced their competitive advantage by embracing 3D printing to convert their new product design and rapid prototyping activities and transitioned to new Direct Manufacturing of end use parts and custom products. Today, we continue to drive the adoption of large-scale custom manufacturing solutions including by a variety of aerospace, defense, transportation and healthcare users worldwide.

We are committed to democratizing access and accelerating adoption of our products and services through affordability and simplicity for the benefit of professionals and consumers. We are extending the range of our affordable printing solutions from design department and production floor to classrooms, living rooms and maker spaces.

Our growing portfolio of 3D printers is based on several unique print engines that employ proprietary, additive layer printing processes designed to meet our customers' most demanding design, prototyping, testing, tooling, production and manufacturing requirements. Our principal print engines include stereolithography printers, selective laser sintering printers, multi-jet modeling printers, film transfer imaging printers, selective laser melting printers, ZPrinters and plastic jet printing printers. We believe that our 3D printing solutions and services enable our customers to develop and manufacture new products faster and more economically, with better quality and higher functionality, than with traditional methods.

Our printers utilize a wide range of proprietary print materials that we develop, blend and market to print real parts. Our print materials are designed to replicate the performance of specific engineered plastics, composites and metals. We augment and complement our own portfolio of print materials with materials that we purchase from third parties under private label and distribution arrangements.

We provide our customers with 3D authoring tools for digital imaging and design including 3D CAD modeling, feature capture, manipulation, replication and measurement. Our 3D authoring solutions integrate 3D content creation and manipulation via CAD modeling, reverse engineering and inspection software that enable our customers to process 3D scanned data directly within a parametric CAD environment. We also offer proprietary software printer drivers together with pre-sale and post-sale services, ranging from applications development and custom engineered production solutions to installation, warranty and maintenance services.

## **Table of Contents**

We also provide a comprehensive suite of on-demand printed parts services to satisfy our customers' entire design-to-manufacturing requirements, offering a broad range of precision plastic and metal parts capabilities produced from a wide range of 3D printing and traditional materials using a variety of additive and traditional manufacturing processes.

In addition to 3D printing solutions, we also provide X-ray digitizing scanners for medical and mechanical applications that are sold under our Vidar® brand.

We continue to develop new products and services and have expanded our technology platform through internal developments, relationships with third parties and acquisitions. We maintain ongoing product development programs that are focused on providing our customers with an expanded portfolio of 3D content-to-print solutions, targeting their entire design-to-manufacturing requirements, from rapid prototyping services to on-site office, model-shop and production floor printers. We are focusing on developing a comprehensive menu of affordable to own and operate 3D printing solutions to address applications in the education, transportation, recreation, healthcare, MCAD, architecture and consumer marketplaces, which we believe represent significant growth opportunities for our business.

In rapid manufacturing applications, our printers are used to manufacture functional end-use parts that have the appearance and performance of high-quality injection-molded parts. Customers who adopt our rapid manufacturing solutions avoid the significant costs of complex set-ups and changeovers and eliminate the costs and lead times associated with conventional tooling methods or labor intensive craftsmanship. Rapid manufacturing enables our customers to produce optimized designs because they can design for function, unconstrained by normal design-for-manufacture considerations.

In rapid prototyping applications, our printers are used to quickly and efficiently generate product-concept models, functional prototypes to test form, fit and function, master patterns and expendable patterns for urethane and investment casting that are often used for evaluating product designs and short-run production.

In communication and design applications, our printers are used to produce presentation models, primarily for visualizing and communicating concepts, various design elements and other activities, including supply chain management and functional models.

In consumer solutions applications, we provide our customers with easy to use, plug and print 3D printers and intuitive, simple-to-use content creation apps, content download and sharing capabilities through our Cubify® website, empowering our customers to design, create and make with coloring book simplicity.

In 3D authoring solutions, we provide CAD modeling, reverse engineering and inspection tools for applications throughout the product lifecycle, enabling seamless integration from ideation to production.

We provide expertly integrated solutions consisting of printers, print materials, software tools and a variety of related on-demand parts and other customer services. Our extensive solutions portfolio enables us to offer our customers cost effective ways to transform the manner in which they design, develop and manufacture their products.

## **Recent Developments**

In October 2012, we acquired Rapidform® scan-to-CAD reverse engineering and inspection software tools. Rapidform is a cornerstone of one of our five growth initiatives: to integrate 3D authoring solutions. Rapidform engineering and inspection software empowers our customers to deliver improved product quality and shorter time-to-market by combining scan data processing, mesh optimization, auto surfacing and CAD modeling into a single integrated tool.

---

## **Table of Contents**

In November 2012, we launched our new ProJet® 3500 *Max* professional 3D printers with greater productivity, high definition prints and remote tablet controls for the production of functional plastic parts and investment casting wax patterns for product design and manufacturing applications.

During the fourth quarter of 2012, we also launched VisiJet® Jewel, VisiJet Pearlstone and VisiJet X print materials. VisiJet Jewel is a specialized material formulated for high volume jewelry production for master models for direct casting of cost effective jewelry on our ProJet 6000 and ProJet 7000 professional 3D printers. VisiJet Pearlstone is a dental material designed for the ProJet MP 3500 dental model printer that produces accurate, economical dental models with the appearance of dental stone and is compatible with all intraoral, impression and plaster scanners. VisiJet X is the first jetted plastic available with the look, feel and performance of injection molded ABS plastic, ideal for prototyping, product mock ups and end-use applications requiring extreme toughness and high temperature resistance and is available for our ProJet 3500 printers, including SD, HD, HD*Plus* and HD*Max* models.

In December 2012, we expanded our Quickparts® on demand parts service globally, extending its reach across Europe and Asia Pacific, and we launched our Quickparts proprietary instant online quoting engine in Europe.

In January 2013, we launched two new products: our second generation home 3D printer, the Cube®, and our next generation desktop printer, CubeX®. The Cube is an affordable simple to use 3D printer for children and adults alike. The second generation Cube provides quieter and faster printing, additional print modes and greater materials selection, including recyclable ABS plastic and compostable PLA plastic in new colors. The CubeX is a desktop 3D printer with the largest print volume in its category, triple color printing and multiple print modes and settings. The CubeX provides professional quality printing in an intuitive consumer experience.

In January 2013, we announced that we have signed a definitive agreement to acquire Geomagic, Inc., a leading global provider of 3D authoring solutions including design, sculpt and scan software tools that are used to create 3D content and inspect products throughout the design and manufacturing process. This acquisition is subject to customary closing conditions and we expect to close this acquisition by the end of February 2013.

In January 2013, we also launched our new ProJet® 3500 series professional 3D printers, the ProJet 3510, in eight models that deliver greater productivity for the production of functional plastic parts and investment casting wax patterns for professional grade design and manufacturing applications. The new ProJet 3510 series incorporates our patented Multi-Jet Modeling (MJM) print technology, production-grade printheads that include a 5 year warranty, advanced material management, tablet-like touchscreen controls and remote tablet and smartphone connectivity.

In January 2013, we acquired COWEB, a start-up company based in Paris, France, that creates consumer customized 3D printed products and collectibles. We plan to integrate COWEB into our consumer solutions business and offer these personalized figures through our proprietary hosting and publishing platform, Cubify.

In February 2013, we announced the availability of Go!MODEL, a 3D reverse engineering and design tool developed in partnership with portable 3D measurement solutions specialist Creaform, designed for their newly released Go!SCAN 3D portable scanner. Using the integrated Go!MODEL and Go!SCAN 3D package, users can capture physical objects and directly model high quality renderings and designs that are ideal for 3D printing. Go!MODEL, powered by our Rapidform platform, offers easy to use and affordable, professional mesh editing capabilities with automatic surfacing utility and functionality.

On February 5, 2013, we announced that our Board of Directors declared a three-for-two split of our common stock in the nature of a 50% stock dividend. On February 22, 2013, each stockholder of record at the close of business on February 15, 2013 received one additional share for every two shares held on the record date. In lieu of fractional shares, shareholders received a cash payment based on the closing market price of our stock on the record date. Trading on a split-adjusted basis will begin on February 25, 2013.

## **Table of Contents**

### **Products and Services**

#### **Printers and Other Products**

All our 3D printers employ one of the above-mentioned print engines. Our 3D printers convert data input from CAD software or 3D scanning and sculpting devices to printed plastic or metal parts using our proprietary engineered plastic, metal and composite print materials. Production printers include our SLA®, SLS® and SLM printers. Our professional printers category includes MJM, 3DP and SLA printers. Personal printers include our 3DP, FTI and PJP printers.

We develop, blend and market a wide range of proprietary print materials that replicate the performance of engineered plastics, composites and metals. We augment and complement our own portfolio of print materials with materials that we purchase from third parties under private label and distribution arrangements.

We provide our customers proprietary software tools, including Alibre® Design, Cubify® Invent and Rapidform. We provide a library of content files and content creation apps. We also provide software embedded within our printers. We provide pre-sale and post-sale services, ranging from applications development to installation, warranty and maintenance services. We also provide a comprehensive suite of printed parts services through our on-demand custom parts services. Our on-demand custom parts services offer a broad range of precision plastic and metal parts service capabilities produced from a wide range of 3D printing and traditional materials using a variety of additive and traditional manufacturing processes.

#### ***Production and Professional 3D Printer Solutions***

Customers use our production printers to produce highly accurate geometries and/or very durable parts for applications in various industries, including aerospace, automotive and healthcare solutions. Our range of production printers is based on our proprietary SLA, SLS and SLM print engines.

Our professional printers are used in engineering and design environments for product development, architecture, marketing communication, education and research and for custom manufacturing of advanced oral and orthopedic restorative devices, custom jewelry and customized toys, action figures and collectibles. Our range of professional printers is based on our proprietary MJM, 3DP and SLA print engines.

#### ***SLA Printers***

Our stereolithography printers convert our proprietary, engineered print materials and composites into solid cross-sections, layer by layer, to print the desired fully fused objects. Our SLA printers are capable of making multiple distinct parts at the same time and are designed to produce highly accurate geometries in a wide range of sizes and shapes with a variety of material performance characteristics. Our SLA printers are capable of rapidly producing tools, fixtures, jigs and end-use parts.

SLA parts are known for their fine feature detail, resolution and surface quality. Product designers, engineers and marketers in many manufacturing companies throughout the world use our SLA printers for a wide variety of applications, ranging from short production runs of end-use products to producing prototypes for automotive, aerospace and various consumer and electronic applications. Healthcare customers use our SLA printers for mass customization of orthodontics, hearing aids and surgical guides and kits.

Our SLA printers are also designed for uses such as building functional models that enable users to share ideas and evaluate concepts, perform form, fit and function tests on working assemblies and build expendable patterns for metal casting.

Our family of SLA printers offers a wide range of capabilities, including size, speed, accuracy, throughput and surface finish in different formats and price points. Our iPro SLA printers come in a variety of print formats designed to quickly and economically produce durable plastic parts with unprecedented surface smoothness, feature resolution, edge definition and tolerances that rival the accuracy of CNC-machined plastic parts. Our iPro family of SLA printers includes the iPro 8000 and iPro 9000, production stereolithography printers capable of printing ultra-high-definition parts made from our integrated portfolio of proprietary Accura® plastics. We also offer the ProJet 6000 and ProJet 7000 professional SLA printers that deliver a more compact printer profile, but are capable of similar throughput, precision, and ultra-high resolution.



## **Table of Contents**

### *SLS Printers*

Our selective laser sintering printers convert our proprietary, engineered print materials and composites by melting and fusing (sintering) these print materials into solid cross-sections, layer by layer, to produce finished parts. SLS printers can create parts from a variety of proprietary engineered plastic and nylon powders and are capable of processing multiple parts in a single build session.

Customer uses of our SLS printers include functional test models and end-use parts, which enable our customers to create customized parts economically without tooling. The combination of print materials flexibility, part functionality and high throughput of our SLS print engine makes it well suited for rapid manufacturing of durable parts for applications in various industries, including aerospace, automotive, packaging, machinery and motor-sports.

Our family of SLS printers comes in a variety of print formats and degrees of automation and includes our line of sPro 60, 140 and 230 SLS printers. Our SLS production printers are designed to enable our customers to mass customize and produce high-quality, end-use parts, patterns, fixtures and tools consistently and economically from our proprietary engineered plastics, nylons and composites, on site and on demand.

### *SLM Printers*

We offer the Sinterstation® Pro SLM direct metal sintering printer through a private label arrangement with a third party supplier. These printers come in two print formats and are capable of producing fully-dense direct metal parts from a variety of metal powders, including stainless steel, chrome cobalt, titanium and tool steel.

### *MJM Printers*

Our professional MultiJet Modeling printers include several ProJet models, including the ProJet 3500, ProJet 3500*Plus*, ProJet 3500*Max* and ProJet 5000. Our professional printers are designed to print high-definition, functional and durable models for form, fit and function analysis, including certain models that are capable of ultra-fine resolution for precision dental and jewelry applications.

### *3DP Printers*

Our professional 3D Printing printers include several ZPrinter® models, including ZPrinter 450, ZPrinter 650 and ZPrinter 850. ZPrinters are full color printers and are capable of printing in up to 390,000 colors. ZPrinters produce full color parts in ceramic-like material, ideal for MCAD, architecture, design communication, education, art and medical applications.

### ***Personal 3D Printer Solutions***

Our personal 3D printers print ready-to-use functional parts at home, school or office workstations. These kits and printers enable students, consumers, designers, engineers, hobbyists and do-it-yourselfers to imagine, design and print their ideas at their desks. Our range of personal printers is based on PJP, FTI and 3DP print engines.

### *PJP Printers*

Our PJP-based 3D personal printers and kits utilize a proven, simple, clean, compact and quiet print engine technology designed for office, home and classroom use. Our PJP printers are designed and engineered to be simple, accurate and robust and some are equipped with up to three compact precision print heads for print speed, accuracy and fast material changeovers.

## **Table of Contents**

Our offering of personal plastic jet printers includes the Cube, CubeX, 3DTouch and RapMan. Our personal PJP printers print in up to three colors for multi-color parts in ABS and PLA plastic. The CubeX prints in multiple print modes and offers standard and high definition options. The Cube is a plug and play consumer printer, fully approved for home use.

### *FTI Printers*

Our FTI printers include the ProJet 1000 and ProJet 1500 and print durable plastic parts with a smooth surface finish and true to design detailed features. Parts printed on these ProJet printers can be drilled, machined, painted and metal-plated after building and ProJet 1500 parts can be printed in six different colors.

### *3DP Printers*

Our 3DP personal 3D printers include the ZPrinter 150 and ZPrinter 250, which print parts in ceramic-like material for study models and design communication.

## **3D Print Materials**

As part of our integrated solutions approach, we blend, market, sell and distribute consumable, engineered plastic, nylon and metal materials and composites under several leading brand names for use in all our printers. We market our stereolithography materials under the Accura brand, our selective laser sintering materials under the DuraForm®, CastForm and LaserForm brands, materials for our ProJet printers under the VisiJet brand and materials for our ZPrinters under the ZPrint® brand. We augment and complement our own portfolio of print materials with materials that we purchase from third parties under private label and distribution arrangements.

Our currently offered printers have built-in intelligence that communicates vital processing and quality statistics in real time. For these printers, we furnish integrated print materials that are specifically designed for use in those printers and that are packaged in smart cartridges designed to enhance system functionality, up-time, materials shelf life and overall printer reliability, with the objective of providing our customers with a built-in quality management system.

We work closely with our customers to optimize the performance of our print materials in their applications. Our expertise in print materials formulation, combined with our process, software and equipment-design strengths, enables us to help our customers select the print material that best meets their needs and obtain optimal cost and performance results. We also work with third parties to develop different types and varieties of print materials designed to meet the needs of our customers.

### *SLA Print Materials and Composites*

Our family of proprietary stereolithography materials and composites offers a variety of plastic-like performance characteristics and attributes designed to mimic specific, engineered, thermoplastic materials. When used in our SLA printers, our proprietary liquid resins turn into a solid surface one layer at a time, and through an additive building process all the layers bond and fuse to make a solid part.

Our portfolio of Accura stereolithography materials includes general purpose as well as specialized materials and composites that offer customers the opportunity to choose the material that is best suited for the parts and models that they intend to produce.

To further complement and expand the range of materials we offer to our customers, we also distribute SLA materials under recognized third-party brand names.

### *SLS Print Materials and Composites*

Our family of proprietary selective laser sintering materials and composites includes a range of rigid plastic, elastomeric and metal materials as well as various composites of these ingredients. Our SLS printers have built-in versatility; therefore, the same printers can be used to process multiple materials.

## **Table of Contents**

Our DuraForm laser sintering materials include CastForm and LaserForm proprietary SLS materials. SLS materials are used to create functional end-use parts, prototypes and durable patterns as well as assembly jigs and fixtures. They are also used to produce flexible, rubber-like parts such as shoe soles, gaskets and seals, patterns for investment casting, functional tooling such as injection molding tool inserts, and end-use parts for customized rapid manufacturing applications.

Examples of rapid manufacturing parts produced by our customers using our SLS printers include air ducts for military aircraft and engine cowling parts for unmanned aerial vehicles. Product designers and developers from major automotive, aerospace and consumer products companies use DuraForm parts extensively as functional test models, including in harsh test environment conditions. Aerospace and medical companies use our SLS printers to produce end-use parts directly, which enables them to create customized parts economically without tooling. Parts made from DuraForm and LaserForm materials are cost effective and can compete favorably with traditional manufacturing methods, especially where part complexity is high.

### *VisiJet Print Materials*

Our family of VisiJet print materials includes part-building materials and compatible disposable support materials that are used in the modeling process and facilitate an easily-melted support removal process. These print materials are sold to our customers packaged in proprietary smart cartridges designed for our personal and professional 3D printers. Our proprietary VisiJet print materials are ideal for study models and form, fit and function engineering studies. VisiJet wax print materials and special dissolvable support materials are used for direct casting applications such as custom jewelry manufacturing, dental crowns and bridge work and other casting and micro-casting applications.

### *PJP Print Materials*

Our family of print materials for use in our plastic jet printing 3D printers includes polylactic acid (PLA), acrylonitrile butadiene styrene (ABS), polypropylene (PP), high density polyethylene (HDPE), low density polyethylene (LDPE), and unplasticised polyvinyl chloride (uPVC). These print materials offer a variety of properties, including tough polymer materials for car bumpers, tough and flexible polymers for face masks or containers, and chemical and solvent resistant materials for fuel tanks, snowboards and water pipes.

### *ZPrint Materials*

Our family of print materials for use in our ZPrinters consists of high performance powders, ranging from single color printing to full-color printing for design communication, architecture, MCAD, medical and education applications.

## **Software Solutions**

We provide our customers with 3D authoring solutions that enable content creation and manipulation through CAD software and proprietary digital workflow software tools. We offer Alibre Design and Cubify Invent CAD software solutions. We offer Rapidform software tools for reverse engineering and inspection, enabling our customers to open scan data directly in the CAD parametric environment. We also offer proprietary software embedded within our printers together with pre-sale and post-sale services, ranging from applications development and custom engineered production solutions to installation, warranty and maintenance services.

## **Table of Contents**

### **Services**

#### *Warranty, Maintenance and Training Services*

We provide a variety of customer services and local application support and field support on a worldwide basis for all our stereolithography and selective laser sintering 3D printers. For our personal and professional 3D printers and software, we provide these services and field support either directly or through a network of authorized resellers or other sources. We are continuing to build a reseller channel for our line of personal and professional 3D printers and software and to train our resellers to perform installation and maintenance services for those printers. We have also entered into arrangements with selected outside service providers to augment our service capabilities for each of our lines of equipment.

The services and field support that we provide includes installation of new printers at customers' sites, printer warranties, several maintenance agreement options and a wide variety of hardware upgrades, software updates and performance enhancement packages. We also provide services to assist our customers and resellers in developing new applications for our technologies, to facilitate the use of our technology for the customers' applications, to train customers on the use of newly acquired printers and to maintain our printers at customers' sites.

New personal, professional and production printers are sold with maintenance support that generally covers a warranty period ranging from 90 days to one year. We offer service contracts that enable our customers to continue maintenance coverage beyond the initial warranty period. These service contracts are offered with various levels of support and are priced accordingly. We employ customer-support sales engineers in North America, in several countries in Europe and in parts of the Asia-Pacific region to support our worldwide customer base. As a key element of warranty and service contract maintenance, our service engineers provide regularly scheduled preventive maintenance visits to customer sites. We also provide training to our distributors and resellers to enable them to perform these services.

We distribute spare parts on a worldwide basis to our customers, primarily from locations in the U.S. and Europe.

We also offer upgrade kits for certain of our printers that enable our existing customers to take advantage of new or enhanced system capabilities; however, we have discontinued upgrade support for certain of our older legacy printers.

#### *On-Demand Parts Services*

We provide an extensive suite of custom parts services through our Quickparts® branded global network of fulfillment facilities. Our Quickparts service offers a broad range of precision plastic and metal parts service capabilities produced from a wide range of print and traditional materials using a variety of additive and traditional manufacturing processes. Customers may procure a complete range of precision plastic and metal parts services using a variety of finishing, molding and casting capabilities. In addition, preferred service providers and leading service bureaus can use our on-demand custom parts service as their comprehensive order-fulfillment center.

We are continuing to expand our on-demand custom parts service by bringing together a wide range of production and additive grade print materials and the latest additive and traditional manufacturing systems to deliver to our customers the broadest available range of precision plastic and metal parts and assemblies. Since October 2009, we have acquired fifteen service providers in the U.S., Europe and Asia-Pacific, enhancing our North American and European presence and expanding our local presence into Australia, the Benelux countries and China.

#### *Consumer services*

In addition to our consumer 3D printers, we offer Cubify, our online hosting and publishing platform providing simple-to-use apps for content creation, content downloads, cloud printing services, hosting for third parties and Cubify Invent software. We are continuing to expand our Cubify offerings, including expanded app development and content files and partnerships with consumer and retail brands to offer personalized and customized jewelry, figurines, collectibles, toys and other items.

---

## **Table of Contents**

### **Global Operations**

We operate in North America, Europe and the Asia-Pacific regions, and distribute our products and services in those areas as well as to other parts of the world. Revenue in countries outside the U.S. accounted for 44.5%, 48.9% and 54.7% of consolidated revenue in the years ended December 31, 2012, 2011 and 2010, respectively.

In maintaining foreign operations, we expose our business to risks inherent in such operations, including currency fluctuations. Information on foreign exchange risk appears in Part I, Item 1A Risk Factors, Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk and Item 8, Financial Statements and Supplementary Data, of this Form 10-K, which information is incorporated herein by reference.

Financial information about geographic areas, including revenue and long-lived assets, appears in Note 21 to the Consolidated Financial Statements in Part II, Item 8, Financial Statements and Supplementary Data, of this Form 10-K, which information is incorporated herein by reference.

### **Marketing and Customers**

Our sales and marketing strategy focuses on an integrated approach that is directed to providing 3D content-to-print solutions and services to meet a wide range of customer needs, including traditional prototyping, 3D printing and rapid manufacturing. This integrated approach includes the sales and marketing of our parts service, either as an adjunct to a customer's in-house use of additive technologies or to the much broader audience of users who do not have dedicated professional or production 3D printers.

Our sales organization is responsible for the sale of our products and services on a worldwide basis and for the management and coordination of our growing network of authorized resellers. We sell our products through our direct sales force and through resellers. Our direct sales force consists of salespersons who work throughout North America, Europe and Asia-Pacific. Our application engineers provide professional services through pre-sales support and assist existing customers so that they can take advantage of our latest print materials and techniques to improve part quality and machine productivity. This group also leverages our customer contacts to help identify new application opportunities that utilize our proprietary processes and access to our on-demand parts printing service, Quickparts. As of December 31, 2012, our worldwide sales, application and service staff consisted of 226 employees.

We sell production printers and our related print materials and services through our direct sales organization, which is supported by our dedicated sales, service and application engineers worldwide. In certain areas of the world where we do not operate directly, we have appointed sales agents, resellers and distributors who are authorized to sell our production printers and the print materials used in them on our behalf. Certain of those agents, resellers and distributors also provide services to customers in those geographic areas.

Our personal and professional printers and our related print materials and services are sold worldwide directly and through a network of authorized distributors and resellers who are managed and directed by a dedicated team of channel sales managers. As of December 31, 2012, our worldwide reseller network consisted of approximately 438 value added resellers.

As a complement to our printers and print materials sales, we maintain our on-demand custom parts service, a global network of parts printing service locations branded as Quickparts. Our parts service is designed to provide our customers a single source for all their design-to-manufacturing needs. Through our Quickparts service, we offer access to a wide range of additive and traditional manufacturing technologies, print materials from plastics to metals and our project management and finishing capabilities through a powerful e-commerce platform with on-line quoting, plug-ins and secure ordering.

With the addition of our Rapidform brand in 2012, we offer our customers a digital, scan, design and print platform. This platform includes reverse engineering and inspection software to help product developers deliver improved product quality and shorter time-to-market. By combining scan data processing, mesh optimization, auto surfacing and CAD modeling in a single, integrated tool, we provide 3D digitization for engineers and manufacturing professionals worldwide, offered through our global network of resellers.

## **Table of Contents**

We also offer consumer oriented 3D printers, content, design productivity tools and design and curation services through Cubify. As we democratize access to affordable 3D printers and services, our target customer base has expanded to small companies, entrepreneurs, enthusiasts and consumers who are not professional CAD users. We provide this expanded audience access to simple and easy to use 3D printers, content, software and tools to capture and customize content through our 3D printers, Cubify.com and Cubify Invent and Alibre design productivity tools. These products and services are distributed through multiple channels with an emphasis on online sales and an inside sales team, complemented by specialized software and electronics resellers and retailers and 3D printer resellers.

Our commercial customers include major companies and small and midsize businesses in a broad range of industries, including manufacturers of automotive, aerospace, computer, electronic, defense, education, consumer, energy and healthcare products. Purchasers of our printers include original equipment manufacturers (OEMs), government agencies, universities that generally use our printers for research activities, and independent service bureaus that provide rapid prototyping and manufacturing services to their customers. No single customer accounted for more than 10 percent of our consolidated revenue in the years ended December 31, 2012, 2011 or 2010.

## **Production and Supplies**

We assemble our ProJet personal and professional 3D printers and other equipment at our Rock Hill, South Carolina facility, enabling us to better utilize our facility, plan production and lower costs. Our CubeX, RapMan and 3DTouch personal printers are assembled at our facility in Clevedon, England. Our ZPrinter personal and professional printers are assembled at our facility in Andover, Massachusetts and our Cube consumer 3D printer and Vidar digitizers are assembled in our Herndon, Virginia facility.

We produce certain print materials at our facilities in Marly, Switzerland and Rock Hill, South Carolina. We also have arrangements with third parties who blend to our specifications certain print materials that we sell under our own brand names. As discussed above, we also purchase print materials from third parties for resale to our customers.

We outsource certain production printer assembly and refurbishment activities to several selected design and engineering companies and suppliers. These suppliers also carry out quality control procedures on our printers prior to their shipment to customers. As part of these activities, these suppliers have responsibility for procuring the components and sub-assemblies that are used in our printers. We purchase finished printers from these suppliers pursuant to forecasts and customer orders that we supply to them. While the outsourced suppliers of our printers have responsibility for the supply chain of the components for the printers they assemble, the components, parts and sub-assemblies that are used in our printers are generally available from several potential suppliers.

Our equipment assembly and print materials blending activities and certain research and development activities are subject to compliance with applicable federal, state and local provisions regulating the storage, use and discharge of materials into the environment. We believe that we are in compliance, in all material respects, with such regulations as currently in effect and that continued compliance with them will not have a material adverse effect on our capital expenditures, results of operations or consolidated financial position.

## **Research and Development**

The 3D printing industry is characterized by rapid technological change. Consequently, we have an ongoing program of research and development to develop new printers and print materials and to enhance our product lines as well as to improve and expand the capabilities of our printers and related software and print materials. This includes all significant technology platform developments for our print engines and print materials. Our development efforts are augmented by development arrangements with research institutions, customers, suppliers of material and hardware and the assembly and design firms that we have engaged to assemble our printers. We also engage third party engineering companies and specialty print materials companies in specific development projects from time to time.

---

## **Table of Contents**

In addition to our internally developed technology platforms, we have acquired products or technologies developed by others by acquiring business entities that held ownership rights to the technologies. In other instances we have licensed or purchased the intellectual property rights of technologies developed by third parties through licensing agreements that may obligate us to pay a license fee or royalty, typically based upon a dollar amount per unit or a percentage of the revenue generated by such products. As noted below, the amount of such royalties was not material to our results of operations or consolidated financial position for the three-year period ended December 31, 2012.

Research and development expenses were \$23.2 million, \$14.3 million and \$10.7 million in 2012, 2011 and 2010, respectively.

We did not capitalize any software development costs in 2012. We capitalized software development costs of \$7.9 million and \$1.2 million from acquisitions in 2011 and 2010, respectively. See Note 6 to the Consolidated Financial Statements.

### **Intellectual Property**

We regard our technology platforms and materials as proprietary and seek to protect them through copyrights, patents, trademarks and trade secrets. At December 31, 2012, we held 852 patents worldwide. At that date, we also had 208 pending patent applications worldwide, including applications covering inventions contained in our recently introduced printers. The principal issued patents covering aspects of our various technologies will expire at varying times through 2027.

We are also a party to various licenses that have had the effect of broadening the range of the patents, patent applications and other intellectual property available to us.

We have also entered into licensing or cross-licensing arrangements with various companies in the United States and in other countries that enable those companies to utilize our technologies in their products or that enable us to use their technologies in our products. Under certain of these licenses, we are entitled to receive, or we are obligated to pay, royalties for the sale of licensed products in the U.S. or in other countries. The amount of such royalties was not material to our results of operations or consolidated financial position for the three-year period ended December 31, 2012.

We believe that, while our patents and licenses provide us with a competitive advantage, our success depends primarily on our marketing, business development and applications know-how and on our ongoing research and development efforts. Accordingly, we believe the expiration of any of the patents, patent applications or licenses discussed above would not be material to our business or financial position.

### **Competition**

We face competition from the development of new technologies or techniques not encompassed by the patents that we own or license, from the conventional machining, plastic molding and metal casting techniques discussed above and from improvements to existing technologies, such as Computer Numerical Control ( CNC ) machining and rotational molding.

Competition for most of our 3D printers is based primarily on process know-how, product application know-how and the ability to provide a full range of products and services to meet customer needs. Competition is also based upon innovations in 3D printing, rapid prototyping and rapid manufacturing printers and print materials. Accordingly, our ongoing research and development programs are intended to enable us to maintain technological leadership. Certain of the companies producing competing products or providing competing services are well established and may have greater financial resources.

Our principal competitors are companies that manufacture machines that make, or use machines to make, models, prototypes, molds and small-volume to medium-volume manufacturing parts. These competitors include suppliers of CNC, suppliers of plastics molding equipment, including injection-molding equipment, suppliers of traditional machining, milling and grinding equipment, and businesses that use such equipment to produce models, prototypes, molds and small-volume to medium-volume manufacturing parts. These conventional machining, plastic molding and metal casting techniques continue to be the most common methods by which plastic and metal parts, models, functional prototypes and metal tool inserts are manufactured.

## Table of Contents

Our competitors also include other suppliers of 3D printers and print materials as well as suppliers of forming manufacturing solutions such as vacuum casting equipment. A number of companies currently sell print materials that compete with those we sell, and there are a wide number of suppliers of maintenance services for the equipment that we sell. Numerous suppliers of these products operate both internationally and regionally, and many of them have well-recognized product lines that compete with us in a wide range of our product applications.

Competition in the parts printing service business is highly fragmented, with most of the services suppliers operating on a local level.

We believe that our future success depends on our ability to enhance our existing products and services, introduce new products and services on a timely and cost-effective basis, meet changing customer needs, extend our core technologies to new applications and anticipate and respond to emerging standards, business models, service delivery methods and other technological changes.

## Employees

At December 31, 2012, we had 1,010 full-time employees. Although some of our employees outside the U.S. are subject to local statutory employment and labor arrangements, none of our U.S. employees are covered by collective bargaining agreements. We have not experienced any material work stoppages and believe that our relations with our employees are satisfactory.

## Available Information

Our website address is [www.3DSystems.com](http://www.3DSystems.com). The information contained on our website is neither a part of, nor incorporated by reference into, this Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports, and other documents that we file with the Securities and Exchange Commission ( SEC ), as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC.

Several of our corporate governance materials, including our Code of Conduct, Code of Ethics for Senior Financial Executives and Directors, Corporate Governance Guidelines, the current charters of each of the standing committees of the Board of Directors and our corporate charter documents and by-laws are available on our website.

## Executive and Other Officers

The information appearing in the table below sets forth the current position or positions held by each of our officers and his or her age as of February 1, 2013. All of our officers serve at the pleasure of the Board of Directors. There are no family relationships among any of our officers or directors.

| Name and Current Position                                              | Age as of February 1, 2013 |
|------------------------------------------------------------------------|----------------------------|
| Abraham N. Reichental<br>President and Chief Executive Officer         | 56                         |
| Charles W. Hull<br>Executive Vice President, Chief Technology Officer  | 73                         |
| Damon J. Gregoire<br>Senior Vice President and Chief Financial Officer | 44                         |
| Kevin P. McAlea<br>Senior Vice President, Production Printer Solutions | 54                         |
| Andrew M. Johnson<br>Vice President, General Counsel and Secretary     | 38                         |
| Cathy L. Lewis<br>Vice President, Chief Marketing Officer              | 61                         |



## **Table of Contents**

We have employed each of the individuals in the foregoing table other than Ms. Lewis for more than five years.

Ms. Lewis joined us as Vice President Global Marketing on October 15, 2009 and was elected an officer of the company in May 2010. Since 2006 she was Chief Executive Officer of Desktop Factory, Inc., a venture financed technology start-up focused on the development and delivery of a low cost 3D printer. For more than three years prior to 2006, Ms. Lewis served as Senior Vice President, Marketing for IKON Office Solutions, a global office copying/printing/imaging and related services company.

### **Item 1A. Risk Factors**

#### **Forward-Looking Statements**

Certain statements made in this Form 10-K 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 this Form 10-K 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 or projections expressed or implied by such forward-looking statements.

In addition to the statements set forth below that explicitly describe risks and uncertainties to which our business and our financial condition and results of operations are subject, readers are urged to consider statements in future or conditional tenses or that include terms such as *believes*, *belief*, *expects*, *intends*, *anticipates* or *plans* that appear in this Form 10-K to be uncertain and forward-looking. Forward-looking statements include comments as to our beliefs, expectations and projections as to future events and trends affecting our business. Forward-looking statements are based upon our beliefs, assumptions and current expectations concerning future events and trends, using information currently available to us, and are necessarily subject to uncertainties, many of which are outside our control. We assume no obligation, and do not intend, to update these forward-looking statements, except as required by applicable law. The factors stated under the heading *Cautionary Statements and Risk Factors* set forth below, as well as other factors, could cause actual results to differ materially from those reflected or predicted in 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 that you read in this Form 10-K 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, financial condition, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or to individuals acting on our behalf are expressly qualified in their entirety by this discussion. You should specifically consider the factors identified in this Form 10-K, which would cause actual results to differ from those referred to in forward-looking statements.

#### **Cautionary Statements and Risk Factors**

The risks and uncertainties described below 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, results of operations and financial condition. If any of the risks described below or if any other risks and uncertainties not currently known to us or that we currently deem not to be material actually occurs, our business, results of operations and financial condition could be materially adversely affected. In that event, the trading price of our common stock could decline, and you could lose all or part of your investment in our common stock.

## **Table of Contents**

The risks discussed below also include forward-looking statements that are intended to provide our current expectations with regard to those risks. There can be no assurance that our current expectations will be met, and our actual results may differ substantially from the expectations expressed in these forward-looking statements.

### **Global economic, political and social conditions may harm our ability to do business, increase our costs and negatively affect our stock price.**

We are subject to global economic, political and social conditions that may cause customers to delay or reduce technology purchases due to economic downturns, volatility in fuel and other energy costs, difficulties in the financial services sector and credit markets, geopolitical uncertainties and other macroeconomic factors affecting spending behavior. For example, the global recession had an adverse impact on the sale of our products in 2009 leading to longer sales cycles, slower adoption of new technology and increased price competition. We face risks that may arise from financial difficulties experienced by our suppliers, resellers or customers, including:

The risk that customers or resellers to whom we sell our products and services may face financial difficulties or may become insolvent, which could lead to our inability to obtain payment of accounts receivable that those customers or resellers may owe;

The risk that key suppliers of raw materials, finished products or components used in the products that we sell may face financial difficulties or may become insolvent, which could lead to disruption in the supply of printers, print materials or spare parts to our customers; and

The inability of customers, including resellers, suppliers and contract manufacturers to obtain credit financing to finance purchases of our products and raw materials used to build those products.

### **We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third party claims as a result of litigation or other proceedings.**

In connection with the enforcement of our own intellectual property rights, the acquisition of third-party intellectual property rights or disputes related to the validity or alleged infringement of third party intellectual property rights, including patent rights, we have been, are currently and may in the future be subject to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation may be costly and can be disruptive to our business operations by diverting attention and energies of management and key technical personnel, and by increasing our costs of doing business. Although we have successfully defended or resolved past litigation and disputes, we may not prevail in any ongoing or future litigation and disputes.

Third party intellectual property claims asserted against us could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from assembling or licensing certain of our products, subject us to injunctions restricting our sale of products, cause severe disruptions to our operations or the marketplaces in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various license arrangements. In addition we may incur significant costs in acquiring the necessary third-party intellectual property rights for use in our products. Any of these could seriously harm our business.

### **We may not be able to protect our intellectual property rights, including our digital content, from third-party infringers or unauthorized copying, use or disclosure.**

Although we defend our intellectual property rights and endeavor to combat unlicensed copying and use of our digital content and intellectual property rights through a variety of techniques, preventing unauthorized use or infringement of our rights is inherently difficult. If our intellectual property becomes subject to piracy attacks, they may harm our business.

Additionally, we endeavor to protect the secrecy of our digital content, confidential information and trade secrets. If unauthorized disclosure of our trade secrets occurs, we could potentially lose trade secret protection. The loss of trade secret protection could make it easier for third parties to compete with our products by copying previously confidential features, which could adversely affect our revenue and operating margins. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements. However there is a risk that our confidential information and trade secrets may be disclosed or published without our authorization, and in these situations it may be difficult and/or costly for us to enforce our rights.



## **Table of Contents**

**We have made, and expect to continue to make, strategic acquisitions that may involve significant risks and uncertainties. We may not realize the anticipated benefits of past or future acquisitions and integration of these acquisitions may disrupt our business and divert management.**

We completed nine acquisitions in 2012. We also completed the COWEB acquisition in 2013 and signed a definitive agreement to acquire Geomagic, which we intend to close in the first quarter of 2013, and we intend to continue to evaluate acquisition opportunities in the future in an effort to expand our business and enhance stockholder value. Acquisitions involve certain risks and uncertainties including:

Difficulty in integrating newly acquired businesses and operations in an efficient and cost-effective manner, which may also impact our ability to realize the potential benefits associated with the acquisition;

The risk that significant unanticipated costs or other problems associated with integration may be encountered;

The challenges in achieving strategic objectives, cost savings and other anticipated benefits;

The risk that our marketplaces do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in the marketplaces that we serve;

The risk that we assume significant liabilities that exceed the limitations of any applicable indemnification provisions or the financial resources of any indemnifying party;

The inability to maintain a relationship with key customers, vendors and other business partners of the acquired businesses;

The difficulty in maintaining controls, procedures and policies during the transition and integration;

The potential loss of key employees of the acquired businesses;

The risk of diverting management attention from our existing operations;

The potential failure of the due diligence process to identify significant problems, liabilities or other challenges of an acquired company or technology;

The risk of incurring significant exit costs if products or services are unsuccessful;

The entry into marketplaces where we have no or limited direct prior experience and where competitors have stronger marketplace positions;

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

The exposure to litigation or other claims in connection with our assuming claims or litigation risks from terminated employees, customers, former shareholders or other third parties; and

The risk that historical financial information may not be representative or indicative of our results as a combined company.

**If we cease to generate net cash flow from operations and if we are unable to raise additional capital, our financial condition could be adversely affected and we may not be able to execute our growth strategy**

In 2012, our unrestricted cash and short-term investments decreased by \$23.2 million to \$155.9 million at December 31, 2012 from \$179.1 million at December 31, 2011. The cash balance at December 31, 2011 included \$145.4 million of net proceeds from senior convertible notes, of which \$134.9 million was used to complete the purchase of Z Corp and Vidar on January 3, 2012.

## **Table of Contents**

During 2012, 2011 and 2010, net cash provided by operations was \$53.0 million, \$27.7 million and \$31.8 million, respectively. We cannot assure you that we will continue to generate cash from operations or other potential sources to fund future working capital needs and meet capital expenditure requirements.

If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on, among other things, the capital markets, our financial condition at such time and the terms and conditions of such indebtedness. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

During 2012 we carried out one capital markets transaction and received \$106.9 million of net proceeds. From time-to-time we may seek access to additional external sources of capital to fund working capital needs, capital expenditures, acquisitions and for other general corporate purposes. However, we cannot assure you that capital would be available from external sources such as bank credit facilities, debt or equity financings or other potential sources to fund any of those future needs.

If our ability to generate cash flow from operations and our existing cash becomes inadequate to meet our needs, our options for addressing such capital constraints include, but are not limited to, (i) obtaining a revolving credit facility from bank lenders, (ii) accessing the public capital markets, or (iii) delaying certain of our existing development projects. If it became necessary to obtain additional debt financing it is likely that such alternatives in the current market environment would be on less favorable terms than we have historically obtained, which could have a material adverse impact on our consolidated financial position, results of operations or cash flows.

The lack of additional capital resulting from any inability to generate cash flow from operations or to raise equity or debt financing could force us to substantially curtail or cease operations and would, therefore, have a material adverse effect on our business and financial condition. Furthermore, we cannot assure you that any necessary funds, if available, would be available on attractive terms or that they would not have a significantly dilutive effect on our existing stockholders. If our financial condition worsens and we become unable to attract additional equity or debt financing or enter into other strategic transactions, we could become insolvent or be forced to declare bankruptcy and we would not be able to execute our growth strategy.

**The variety of products that we sell could cause significant quarterly fluctuations in our gross profit margins, and those fluctuations in margins could cause fluctuations in operating income or loss and net income or loss.**

We continuously work to expand and improve our product offerings, including our printers, print materials and services, the number of geographic areas in which we operate and the distribution channels we use to reach various target product applications and customers. This variety of products, applications and channels involves a range of gross profit margins that can cause substantial quarterly fluctuations in gross profit and gross profit margins depending upon the mix of product shipments from quarter to quarter. We may experience significant quarterly fluctuations in gross profit margins or operating income or loss due to the impact of the mix of products, channels or geographic areas in which we sell our products from period to period. In some quarters, it is possible that results could be below expectations of analysts and investors. If so, the price of our common stock may be volatile or decline and our cost of capital may increase.

## **Table of Contents**

**We believe that our future success may depend on our ability to deliver products that meet changing technology and customer needs.**

Our business may be affected by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new standards and practices, any of which could render our existing products and proprietary technology and printers obsolete. Accordingly, our ongoing research and development programs are intended to enable us to maintain technological leadership. We believe that to remain competitive we must continually enhance and improve the functionality and features of our products, services and technologies. However, there is a risk that we may not be able to:

Develop or obtain leading technologies useful in our business;

Enhance our existing products;

Develop new products and technologies that address the increasingly sophisticated and varied needs of prospective customers, particularly in the area of print materials functionality;

Respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis; or

Recruit or retain key technology employees.

**We derive a significant portion of our revenue from business conducted outside the U.S and are subject to the risks of doing business outside the U.S.**

Approximately 45 percent of our consolidated revenue is derived from customers in countries outside the U.S. There are many risks inherent in business activities outside the U.S. that, unless managed properly, may adversely affect our profitability, including our ability to collect amounts due from customers. While most of our operations outside the U.S. are conducted in highly developed countries, they could be adversely affected by:

Unexpected changes in laws, regulations and policies of non-U.S. governments relating to investments and operations, as well as U.S. laws affecting the activities of U.S. companies abroad;

Changes in regulatory requirements, including export controls, tariffs and embargoes, other trade restrictions, competition, corporate practices and data privacy concerns;

Political policies, political or civil unrest, terrorism or epidemics and other similar outbreaks;

Fluctuations in currency exchange rates;

Seasonal reductions in business activity in certain parts of the world, particularly during the summer months in Europe and extended holiday periods in various parts of the world;

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

Limited protection for the enforcement of contract and intellectual property rights in some countries;

Transportation delays;

Difficulties in staffing and managing foreign operations;

Operating in countries with a higher incidence of corruption and fraudulent business practices;

Taxation; and

Other factors, depending upon the specific country in which we conduct business.

These uncertainties may make it difficult for us and our customers to accurately plan future business activities and may lead our customers in certain countries to delay purchases of our products and services. More generally, these geopolitical, social and economic conditions could result in increased volatility in global financial markets and economies.

The consequences of terrorism or armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our market opportunities or our business. We are uninsured for losses and interruptions caused by terrorism, acts of war and similar events.

While the geographic areas outside the U.S. in which we operate are generally not considered to be highly inflationary, our foreign operations are sensitive to fluctuations in currency exchange rates arising from, among other things, certain intercompany transactions that are generally denominated, for example, in U.S. dollars rather than their respective functional currencies.

Moreover, our operations are exposed to market risk from changes in interest rates and foreign currency exchange rates and commodity prices, which may adversely affect our results of operations and financial condition. We seek to minimize these risks through regular operating and financing activities and, when we consider it to be appropriate, through the use of derivative financial instruments. We do not purchase, hold or sell derivative financial instruments for trading or speculative purposes.



## **Table of Contents**

**We face significant competition in many aspects of our business, which could cause our revenue and gross profit margins to decline. Competition could also cause us to reduce sales prices or to incur additional marketing or production costs, which could result in decreased revenue, increased costs and reduced margins.**

We compete for customers with a wide variety of producers of equipment for models, prototypes, other three-dimensional objects and end-use parts as well as producers of print materials and services for this equipment. Some of our existing and potential competitors are researching, designing, developing and marketing other types of competitive equipment, print materials and services. Many of these competitors have financial, marketing, manufacturing, distribution and other resources substantially greater than ours.

We also expect that future competition may arise from the development of allied or related techniques for equipment and print materials that are not encompassed by our patents, from the issuance of patents to other companies that may inhibit our ability to develop certain products, and from improvements to existing print materials and equipment technologies.

We intend to continue to follow a strategy of continuing product development to enhance our position to the extent practicable. We cannot assure you that we will be able to maintain our current position in the field or continue to compete successfully against current and future sources of competition. If we do not keep pace with technological change and introduce new products, we may lose revenue and demand for our products.

**New regulations related to conflict-free minerals may cause us to incur additional expenses and may create challenges with our customers.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries (DRC). The SEC has established new annual disclosure and reporting requirements for those companies who use conflict minerals sourced from the DRC in their products. These new requirements could limit the pool of suppliers who can provide conflict-free minerals, and as a result, we cannot ensure that we will be able to obtain these conflict-free minerals at competitive prices. Compliance with these new requirements may also increase our costs. In addition, we may face challenges with our customers if we are unable to sufficiently verify the origins of the minerals used in our products.

**We depend on our supply chain for components and sub-assemblies used in our 3D printers and for raw materials used in our print materials. If these relationships were to terminate or be disrupted, our business could be disrupted while we locate alternative suppliers and our expenses may increase.**

We have outsourced the assembly of certain of our printers to third party suppliers, we purchase components and sub-assemblies for our printers from third party suppliers, and we purchase raw materials that are used in our print materials, as well as certain of those print materials, from third party suppliers.

While there are several potential suppliers of the components, parts and sub-assemblies for our products, we currently choose to use only one or a limited number of suppliers for several of these components, including our lasers, print materials and certain jetting components. Our reliance on a single or limited number of suppliers involves many risks including:

Potential shortages of some key components;

Disruptions in the operations of these suppliers;

Product performance shortfalls; and

Reduced control over delivery schedules, assembly capabilities, quality and costs.

## **Table of Contents**

While we believe that we can obtain all the components necessary for our products from other manufacturers, we require any new supplier to become qualified pursuant to our internal procedures, which could involve evaluation processes of varying durations. We generally have our printers assembled based on our internal forecasts and the supply of raw materials, assemblies, components and finished goods from third parties, which are subject to various lead times. In addition, at any time, certain suppliers may decide to discontinue production of an assembly, component or raw material that we use. Any unanticipated change in the sources of our supplies, or unanticipated supply limitations, could increase production or related costs and consequently reduce margins.

If our forecasts exceed actual orders, we may hold large inventories of slow-moving or unusable parts, which could have an adverse effect on our cash flow, profitability and results of operations.

We have engaged selected design and manufacturing companies to assemble certain of our production printers. In carrying out these outsourcing activities, we face a number of risks, including:

The risk that the parties that we retain to perform assembly activities may not perform in a satisfactory manner;

The risk of disruption in the supply of printers to our customers if such third parties either fail to perform in a satisfactory manner or are unable to supply us with the quantity of printers that are needed to meet then current customer demand; and

The risk of insolvency of these suppliers, as well as the risks that we face, as discussed above, in dealing with a limited number of suppliers.

**We may be subject to product liability claims, which could result in material expense, diversion of management time and attention and damage to our business reputation.**

Products as complex as those we offer may contain undetected defects or errors when first introduced or as enhancements are released that, despite testing, are not discovered until after the product has been installed and used by customers. This could result in delayed marketplace acceptance of the product, claims from customers or others, damage to our reputation and business or significant costs to correct the defect or error.

We attempt to include provisions in our agreements with customers that are designed to limit our exposure to potential liability for damages arising from defects or errors in our products. However, the nature and extent of these limitations vary from customer to customer, their effect is subject to a variety of legal limitations, and it is possible that these limitations may not be effective as a result of unfavorable judicial decisions or laws enacted in the future.

The sale and support of our products entails the risk of product liability claims. Any product liability claim brought against us, regardless of its merit, could result in material expense, diversion of management time and attention, damage to our business reputation and cause us to fail to retain existing customers or to fail to attract new customers.

**We face risks in connection with changes in energy-related expenses.**

We and our suppliers depend on various energy products in processes used to produce our products. Generally, we acquire products at market prices and do not use financial instruments to hedge energy prices. As a result, we are exposed to market risks related to changes in energy prices. In addition, many of the customers and industries to whom we market our printers and print materials are directly or indirectly dependent upon the cost and availability of energy resources.

Our business and profitability may be materially and adversely affected to the extent that our or our customers' energy-related expenses increase, both as a result of higher costs of producing, and potentially lower profit margins in selling, our products and print materials and because increased energy costs may cause our customers to delay or reduce purchases of our printers and print materials.

## **Table of Contents**

### **A cybersecurity incident could have negative impact.**

A cyber-attack that bypasses our information technology (IT) security systems causing an IT security breach, may lead to a material disruption of our IT business systems and/or the loss of business information resulting in adverse business impact. Risks may include:

future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;

operational or business delays resulting from the disruption of IT systems and subsequent clean-up and mitigation activities; and

negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

### **Historically, our common stock price has been volatile.**

The market price of our common stock has experienced, and may continue to experience, considerable volatility. Between January 1, 2011 and December 31, 2012, after giving effect to the two-for-one stock split in the nature of a 100% stock dividend that we distributed in May 2011, the trading price of our common stock has ranged from a low of \$12.78 per share to a high of \$53.47 per share.

Numerous factors could have a significant effect on the price of our common stock, including those described or referred to in this Risk Factors section of this Form 10-K, as well as, among other things:

Our perceived value in the securities markets;

Overall trends in the stock market;

Announcements of fluctuations in our operating results or the operating results of one or more of our competitors;

The impact of changes in our results of operations, our financial condition or our prospects or on how we are perceived in the securities markets;

Future sales of our common stock or other securities (including any shares issued in connection with our outstanding senior convertible notes or earn-out obligations for any past or future acquisition);

Market conditions for providers of products and services such as ours;

Changes in recommendations or earnings estimates by securities analysts; and

Announcements of acquisitions by us or one of our competitors.

**The number of shares of common stock issuable in a stock offering, the issuance of restricted stock awards or the issuance of shares in connection with certain acquisitions or the conversion of the notes could dilute the ownership interest of existing stockholders and may**

**affect the market price for our common stock.**

We have an effective registration statement on Form S-3 under which, among other things, we may issue up to \$300.0 million of securities. We issued \$112.1 million of Common Stock in 2012 in reliance upon this registration statement and the remaining \$187.9 million of securities covered by it may be issued until June 12, 2015. We may file a new registration statement at any time to increase these available amounts as necessary to provide flexibility to execute our growth strategy.

## **Table of Contents**

In February 2013, the Company announced that its Board of Directors declared a three-for-two split of the Company's common stock in the nature of a 50% stock dividend. On February 22, 2013, each stockholder of record at the close of business on February 15, 2013 received one additional share for every two shares held on the record date. In lieu of fractional shares, shareholders received a cash payment based on the closing market price of our stock on the record date. Trading will begin on a split-adjusted basis on February 25, 2013.

Our Certificate of Incorporation, as amended, authorizes our issuance of up to a total 120 million shares of common stock, of which 59.5 million shares have been issued or are otherwise currently reserved for issuance. We intend to seek stockholder approval at our 2013 Annual Meeting of Stockholders to amend our Certificate of Incorporation to increase the number of shares of common stock that we are authorized to issue. Future issuances could have the effect of diluting our earnings per share as well as our existing stockholders' individual ownership percentages and could lead to volatility in our common stock price.

Additionally, subject to the limitations of our Certificate of Incorporation and applicable law, we are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of additional shares of our common stock in connection with future acquisitions or other issuances of our common stock or convertible securities, including outstanding options, may dilute the ownership interest of our common stockholders.

Sales of a substantial number of shares of our common stock or other equity-related securities in the public market could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

### **Our Board of Directors is authorized to issue up to 5 million shares of preferred stock.**

The Board of Directors is authorized to issue up to 5 million shares of preferred stock, none of which is currently issued or outstanding. The Board of Directors is authorized to issue these shares of preferred stock in one or more classes or series without further action of the stockholders and in that regard to determine the issue price, rights, preferences and privileges of any such class or series of preferred stock generally without any further vote or action by the stockholders. The rights of the holders of any outstanding series of preferred stock may adversely affect the rights of holders of common stock.

Our ability to issue preferred stock gives us flexibility concerning possible acquisitions and financings, but it could make it more difficult for a third party to acquire a majority of our outstanding common stock. In addition, any preferred stock that is issued may have other rights, including dividend rights, liquidation preferences and other economic rights, senior to the common stock, which could have a material adverse effect on the market value of our common stock.

### **Certain provisions of Delaware law contain anti-takeover provisions that may make it more difficult to effect a change in our control.**

Certain provisions of the Delaware General Corporation Law could delay or prevent an acquisition or change in control and the replacement of our incumbent directors and management, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares, possibly at a premium over the then market price of our common stock. One of these Delaware laws prohibits us from engaging in a business combination with any interested stockholder (as defined in the statute) for a period of three years from the date that the person became an interested stockholder, unless certain conditions are met.

## **Table of Contents**

### **Certain provisions of our outstanding convertible notes could discourage an acquisition of us by a third party.**

Certain provisions of the notes could make it more difficult or more expensive for a third party to acquire us or to carry out any other transaction that may effect a change in our control. Upon the occurrence of certain transactions constituting a fundamental change (as such term is defined in the indenture covering such notes), holders of the notes will have the right, at their option, to require us to repurchase all of the notes they hold or any portion of the principal amount of such notes in integral multiples of one thousand dollars. We may also be required to issue additional shares of common stock upon conversion of such notes.

### **Our balance sheet contains several categories of intangible assets totaling \$348.7 million at December 31, 2012 that we could be required to write off or write down in the event of the impairment of certain of those assets arising from any deterioration in our future performance or other circumstances. Such write-offs or write-downs could adversely impact our future earnings and stock price, our ability to obtain financing and affect our customer relationships.**

At December 31, 2012, we had \$240.3 million in goodwill capitalized on our balance sheet. Accounting Standards Codification ( ASC ) 350, Intangibles Goodwill and Other, requires that goodwill and some long-lived intangibles be tested for impairment at least annually. In addition, goodwill and intangible assets are tested for impairment at other times as circumstances warrant, and such testing could result in write-downs of some of our goodwill and long-lived intangibles. Impairment is measured as the excess of the carrying value of the goodwill or intangible asset over the fair value of the underlying asset. A key factor in determining whether impairment has occurred is the relationship between our market capitalization and our book value. Accordingly, we may, from time to time, incur impairment charges, which are recorded as operating expenses when they are incurred and would reduce our net income and adversely affect our operating results in the period in which they are incurred.

As of December 31, 2012, we had \$108.4 million of other intangible assets, net, consisting of licenses, patents, and other intangibles that we amortize over time. Any material impairment to any of these items would result in a non-cash charge and would not impact our cash position or cash flows, but such a charge could adversely affect our results of operations and equity and could affect the trading price of our common stock in the period in which they are incurred.

As discussed below, we completed several business acquisitions during 2010, 2011 and 2012. The majority of the acquisitions have resulted in our recording additional goodwill on our consolidated balance sheet. This goodwill typically arises because the purchase price for these businesses reflects a number of factors including the future earnings and cash flow potential of these businesses, the multiples to earnings, cash flow and other factors, such as prices at which similar businesses have been purchased by other acquirers, the competitive nature of the process by which we acquired the business, and the complementary strategic fit and resulting synergies these businesses bring to existing operations.

For additional information, see Notes 6 and 7 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Estimates *Goodwill and other intangible and long-lived assets*.

### **Changes in, or interpretation of, tax rules and regulations may impact our effective tax rate and future profitability.**

We are a U.S. based, multinational company subject to taxation in multiple U.S. and foreign tax jurisdictions. Our future effective tax rates could be adversely affected by changes in statutory tax rates or interpretation of tax rules and regulations in jurisdictions in which we do business, changes in the amount of revenue or earnings in the countries with varying statutory tax rates, or by changes in the valuation of deferred tax assets and liabilities.

In addition, we are subject to audits and examinations of previously filed income tax returns by the Internal Revenue Service ( IRS ), and other domestic and foreign tax authorities. We regularly assess the potential impact of such examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that we expect may result from the current examinations. We believe such estimates to be reasonable; however, there is no assurance that the final determination of any examination will not have an adverse effect on our operating results and financial position.

## **Table of Contents**

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We occupy an 80,000 square foot headquarters, research and development and manufacturing facility in Rock Hill, South Carolina, which we lease pursuant to a lease agreement with Lex Rock Hill, LP. After its initial term ending August 31, 2021, the lease provides us with the option to renew the lease for two additional five-year terms as well as the right to cause Lex Rock Hill, LP, subject to certain terms and conditions, to expand the leased premises during the term of the lease, in which case the term of the lease would be extended. The lease is a triple net lease and provides for the payment of base rent of approximately \$0.7 million annually from 2013 through 2020, including a rent escalation in 2016, and \$0.5 million in 2021. Under the terms of the lease, we are obligated to pay all taxes, insurance, utilities and other operating costs with respect to the leased premises. The lease also grants us the right to purchase the leased premises and undeveloped land surrounding the leased premises on terms and conditions described more particularly in the lease. We exercised the right to purchase the undeveloped land in March 2011. We purchased this 11-acre parcel contiguous to our Rock Hill facility for future expansion and additional facility capacity to continue to expand in-house manufacturing activities for printers and print materials.

We own 35,000 square feet of office and printed parts service facilities in Lawrenceburg, Tennessee at which we perform a broad range of printed parts services. We lease 57,000 square feet of office and assembly space in Andover, Massachusetts, which we utilize in our 3D printer and printer services business. We lease 36,000 square feet of office and assembly space in Herndon, Virginia, which we utilize in our medical film scanner business and to manufacture consumer printers. We lease 30,000 square feet of office and printed parts service facilities in Seattle, Washington, which we utilize in our on-demand custom parts services. We lease 22,000 square feet of office and printed parts service facilities in Pinerolo, Italy, which is used in our on-demand custom parts services and as a sales and service office. We lease office and printed parts service facilities of 21,000 square feet in Le Mans, France, which is used in our on-demand custom parts services and as a sales and service office. We lease 19,000 square feet of office and service space in Langhorne, Pennsylvania, which we use in our direct rapid manufacturing business. We lease a 17,000 square foot office facility in Atlanta, Georgia, which is used in our on-demand parts services. We lease a 14,000 square foot facility in Richardson, Texas, which is used in our consumer solutions services and software products. We also lease a 13,000 square foot general-purpose facility in Marly, Switzerland, at which we blend print materials and composites. We lease an 11,000 square foot advanced research and development facility in Valencia, California. We lease an 11,000 square foot facility in Seoul, South Korea, which we use for the development, marketing sales and service of our Rapidform products. We lease an 8,000 square foot facility in San Francisco, California, which is used in our Bespoke personalized medical devices development and Cubify development.

We also lease various sales and service offices in Germany, the United Kingdom, the Netherlands, Australia, Japan, China and India as well as various other facilities used in the U.S., Australia and the Netherlands.

### **Item 3. Legal Proceedings.**

For information relating to legal proceedings, see Note 22 to the Consolidated Financial Statements contained in Part II, Item 8 of this Annual Report on Form 10-K.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

On May 26, 2011, we transferred the listing of our Common Stock to the New York Stock Exchange ( NYSE ) under the trading symbol DDD. Prior to that, our Common Stock was listed on The NASDAQ Global Market ( NASDAQ ) and traded under the symbol TDSC. The following table sets forth, for the periods indicated, the range of high and low prices of our common stock, \$0.001 par value, as quoted on The NASDAQ Global Market and the NYSE, with tickers TDSC and DDD, respectively. In addition, we completed a two-for-one split in the form of a 100% stock dividend effective May 18, 2011, which is reflected in the prices in the table below.

| Year | Period         | High     | Low      |
|------|----------------|----------|----------|
| 2011 | First Quarter  | \$ 26.78 | \$ 13.38 |
|      | Second Quarter | 29.35    | 17.01    |
|      | Third Quarter  | 27.28    | 13.67    |
|      | Fourth Quarter | 20.00    | 12.78    |
| 2012 | First Quarter  | \$ 25.77 | \$ 14.73 |
|      | Second Quarter | 34.98    | 22.25    |
|      | Third Quarter  | 44.80    | 30.37    |
|      | Fourth Quarter | 53.47    | 33.32    |

As of February 15, 2013, our outstanding common stock was held by approximately 517 stockholders.

**Dividends**

We do not currently pay, and have not paid, any dividends on our common stock, and we currently intend to retain any future earnings for use in our business. Any future determination as to the declaration of dividends on our common stock will be made at the discretion of the Board of Directors and will depend on our earnings, operating and financial condition, capital requirements and other factors deemed relevant by the Board of Directors, including the applicable requirements of the Delaware General Corporation Law, which provides that dividends are payable only out of surplus or current net profits.

The payment of dividends on our common stock may be restricted by the provisions of credit agreements or other financing documents that we may enter into or the terms of securities that we may issue from time to time. Currently, no such agreements or documents limit our declaration of dividends or payments of dividends.

**Issuance of Unregistered Securities and Issuer Purchases of Equity Securities**

During the fourth quarter of 2011, we issued \$152 million aggregate principal amount of 5.50% Senior Convertible Notes due 2016 in a transaction exempt from registration under the Securities Act of 1933, as amended. During 2012 note holders converted \$61 million aggregate principal amount of 5.50% Senior Convertible Notes, which converted into 2.8 million shares of common stock. See Note 11 to the Consolidated Financial Statements.

We did not repurchase any of our equity securities during the fourth quarter of 2012, except for unvested restricted stock awards repurchased pursuant to our 2004 Incentive Stock Plan. See Note 14 to the Consolidated Financial Statements.



**Table of Contents****Stock Performance Graph**

The graph below shows, for the five years ended December 31, 2012, the cumulative total return on an investment of \$100 assumed to have been made on December 31, 2007 in our common stock. For purposes of the graph, cumulative total return assumes the reinvestment of all dividends. The graph compares such return with those of comparable investments assumed to have been made on the same date in (a) the NYSE Composite Index and (b) the S&P 500 Information Technology Index, which are published market indices with which we are sometimes compared.

Although total return for the assumed investment assumes the reinvestment of all dividends on December 31 of the year in which such dividends were paid, we paid no cash dividends on our common stock during the periods presented.

Our common stock is listed on the NYSE (trading symbol: DDD). In May 2011 we transferred the listing of our Common Stock from the NASDAQ where we traded under the symbol TDSC to the NYSE under the trading symbol DDD. Consequently, the NYSE Composite Index is included in the performance graph below.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN\***

\* \$100 invested on 12/31/07 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

|                                      | 12/07  | 12/08    | 12/09    | 12/10     | 12/11     | 12/12     |
|--------------------------------------|--------|----------|----------|-----------|-----------|-----------|
| 3D Systems Corporation               | \$ 100 | \$ 51.42 | \$ 73.18 | \$ 203.94 | \$ 186.46 | \$ 690.81 |
| NYSE Composite Index                 | 100    | 60.86    | 78.25    | 88.91     | 85.63     | 99.29     |
| S&P 500 Information Technology Index | 100    | 56.86    | 91.95    | 96.33     | 98.65     | 113.28    |

**Table of Contents****Item 6. Selected Financial Data**

The selected consolidated financial data set forth below for the five years ended December 31, 2012 have been derived from our historical Consolidated Financial Statements. You should read this information together with Management's Discussion and Analysis of Financial Condition and Results of Operations, the notes to the selected consolidated financial data and our Consolidated Financial Statements and the notes thereto for December 31, 2012 and prior years included in this Form 10-K.

| <i>(in thousands, except per share amounts)</i>                        | Year ended December 31, |            |           |           |           |
|------------------------------------------------------------------------|-------------------------|------------|-----------|-----------|-----------|
|                                                                        | 2012                    | 2011       | 2010      | 2009      | 2008      |
| <b>Consolidated Statement of Operations and Other Comprehensive</b>    |                         |            |           |           |           |
| <b>Income (Loss) Data:</b>                                             |                         |            |           |           |           |
| Consolidated Revenue:                                                  |                         |            |           |           |           |
| Printers and other products                                            | \$ 126,798              | \$ 66,665  | \$ 54,686 | \$ 30,501 | \$ 41,323 |
| Materials                                                              | 103,182                 | 70,641     | 58,431    | 50,297    | 62,290    |
| Services                                                               | 123,653                 | 93,117     | 46,751    | 32,037    | 35,327    |
| Total                                                                  | 353,633                 | 230,423    | 159,868   | 112,835   | 138,940   |
| Gross Profit <sup>(1)</sup>                                            | 181,196                 | 109,028    | 73,976    | 49,730    | 55,568    |
| Income (loss) from operations <sup>(1)</sup>                           | 60,571                  | 34,902     | 20,920    | 3,073     | (5,490)   |
| Net income (loss) <sup>(2)(3)</sup>                                    | 38,941                  | 35,420     | 19,566    | 1,139     | (6,154)   |
| Net income (loss) available to common stockholders                     | 38,941                  | 35,420     | 19,566    | 1,066     | (6,154)   |
| Net income (loss) available to common stockholders per share:          |                         |            |           |           |           |
| Basic                                                                  | \$ 0.72                 | \$ 0.71    | \$ 0.42   | \$ 0.02   | \$ (0.14) |
| Diluted                                                                | \$ 0.71                 | \$ 0.70    | \$ 0.42   | \$ 0.02   | \$ (0.14) |
| <b>Consolidated Balance Sheet Data:</b>                                |                         |            |           |           |           |
| Working capital                                                        | \$ 212,285              | \$ 202,357 | \$ 42,475 | \$ 36,718 | \$ 35,279 |
| Total assets                                                           | 677,442                 | 462,974    | 208,800   | 150,403   | 153,002   |
| Current portion of long-term debt and capitalized lease obligations    | 174                     | 163        | 224       | 213       | 3,280     |
| Long-term debt and capitalized lease obligations, less current portion | 87,974                  | 138,716    | 8,055     | 8,254     | 8,467     |
| Total stockholders' equity                                             | 480,333                 | 254,788    | 133,119   | 104,697   | 102,234   |
| <b>Other Data:</b>                                                     |                         |            |           |           |           |
| Depreciation and amortization                                          | \$ 21,229               | \$ 11,093  | \$ 7,520  | \$ 5,886  | \$ 6,676  |
| Interest expense                                                       | 12,468                  | 2,090      | 587       | 618       | 918       |
| Capital expenditures <sup>(4)</sup>                                    | 3,224                   | 2,870      | 1,283     | 974       | 5,811     |

<sup>(1)</sup> To conform to 2012, 2011, 2010 and 2009 presentation, foreign exchange gain (loss) was reclassified for 2008 from product cost of sales to interest and other expenses, net. The amount of foreign exchange gain that was reclassified in 2008 was \$401. This had the effect of decreasing gross profit and increasing the loss from operations in 2008 by that amount.

**Table of Contents**

- (2) In 2012, 2011 and 2010, based upon our recent results of operations and expectation of continued profitability in future years, we concluded that it is more likely than not that a portion of our net U.S. deferred tax assets would be realized. In accordance with ASC 740, in 2012, 2011 and 2010 we released valuation allowances associated with U.S. deferred tax assets resulting in a non-cash income tax benefit of \$5,372, \$6,221 and \$1,162, respectively.
- (3) Our net loss for 2008 included a \$1,185 tax benefit arising from the settlement of a tax audit for the years 2000 through 2005 with a foreign tax authority. This tax settlement reduced 2008 income tax expense by \$1,185 as amounts owing under the settlement were less than amounts previously estimated. The settlement enabled us to recognize foreign tax loss carryforwards, resulting in a \$911 increase in our foreign deferred tax asset.
- (4) Excludes capital lease additions.

## **Table of Contents**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read together with the selected consolidated financial data and our Consolidated Financial Statements and notes thereto set forth in this Form 10-K. Certain statements contained in this discussion may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those reflected in any forward-looking statements, as discussed more fully in this Form 10-K. See *Forward-Looking Statements* and *Cautionary Statements and Risk Factors* in Item 1A.

The forward-looking information set forth in this Form 10-K is provided as of the date of this filing, and, except as required by law, we undertake no duty to update that information.

#### ***Overview***

We are a leading global provider of 3D content-to-print solutions including 3D printers, print materials, on-demand custom parts services and 3D authoring tools for professionals and consumers. Our integrated solutions replace and complement traditional methods and reduce the time and cost of designing and manufacturing new products. These solutions are used to rapidly design, communicate, prototype and produce functional parts, empowering our customers to create and make with confidence. We derive our consolidated revenue primarily from the sale of our printers, the related print materials and services, including revenue from our on demand parts services.

#### ***Growth strategy***

We are pursuing a growth strategy that focuses on five strategic initiatives:

Build our global custom parts services;

Accelerate 3D printer penetration;

Grow healthcare solutions revenue;

Build 3D consumer content products and services; and

Integrate 3D authoring solutions.

We are working to accomplish our growth initiatives organically and, as opportunities present themselves, through selective acquisitions, including those we have already completed. We expect to be able to support organic growth by leveraging our comprehensive toolkit of solutions in order to sell more products and services to our existing customer base. As with any growth strategy, there can be no assurance that we will succeed in accomplishing our strategic initiatives.

*Build Global Custom Parts Services.* As a supplement to our 3D print solutions, we believe that growing and expanding our custom parts services, through organic growth and acquisitions, will enable us to impart the latest technology to our customers months or years in advance of their ability to invest in new printers for their own use. We view this as an opportunity to introduce customers to the newest 3D additive production technologies and to build brand experience and customer loyalty with them. We also view it as a significant cross-selling and upselling opportunity from single parts all the way to production printers. In connection with this initiative, we launched our on-demand parts services in October 2009, earned \$18.3 million of revenue related to our on-demand parts service in 2010 and built this service to \$58.8 million of revenue in 2011 and \$79.2 million in 2012.

*Accelerate 3D Printer Penetration.* We believe that accelerating 3D printer penetration through channel expansion and new products will provide a growing installed base to enable higher revenue from recurring sales of print materials and services. With this objective in mind, we have developed an extensive portfolio of 3D printers. We are continuing to expand our reseller channel for our personal and professional 3D

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

printers and to train our resellers to perform installation and services for those printers. We exited 2012 with approximately 438 resellers and \$87.8 million of revenue from personal and professional printers and \$36.4 million of revenue from production printers, representing 88.8% growth over 2011.

## **Table of Contents**

*Grow Healthcare Solutions Revenue.* We believe that, by leveraging our rapid manufacturing core competencies in healthcare solutions applications, we can grow revenue within this marketplace. For example, in 2012 healthcare solutions revenue, including sales of printers, print materials and services for hearing aid, dental, medical device and other health-related applications, accounted for 14.0%, or \$49.3 million, of total revenue and 12.1%, or \$27.9 million, of our total revenue in 2011. We expect to continue to grow our healthcare solutions revenue, including from the planned commercialization of Bespoke products during 2013.

*Build 3D Consumer Content Products and Services.* We believe that the affordability of our personal printers makes 3D consumer content critical to accelerated adoption. Recognizing the opportunity to deliver 3D content to an expanded audience, we have begun work to identify the tools and services required to deliver 3D content to consumers. We believe that the creation of content products and services could make affordable 3D printers more widely adopted and used by people of all ages and walks of life. We expect to build this capability through a combination of internal developments and acquisitions, and for consumer solutions revenue to become meaningful to our results in 2013.

*Integrate 3D Authoring Solutions.* We believe that by providing a 3D authoring solutions platform to combine capture, mesh, surface, model and measure, we will be able to continue to expand the applications and utilization of 3D printing enabling seamless integration throughout the design and manufacture processes. We acquired Rapidform software tools in 2012 as the cornerstone of this initiative and we plan to continue to build this platform through a combination of internal developments and acquisitions, including our planned acquisition of Geomagic during the first quarter of 2013.

We intend to accomplish growth in all areas of our growth strategy organically and, as opportunities present themselves, through selective acquisitions. As with any growth strategy, there can be no assurance that we will succeed in accomplishing our strategic initiatives.

### ***Summary of 2012 Financial Results***

As discussed in greater detail below, revenue for 2012 increased primarily due to higher sales across all revenue categories. Our revenue increased by 53.5% to \$353.6 million in 2012 from \$230.4 million in 2011, after having increased from \$159.9 million in 2010. These results reflected growth in demand for 3D printers and increased demand in several key industries we serve, increased print material sales from a growing installed base, and higher service revenue from on-demand parts services and growth from acquisitions. Revenue from Z Corp and Vidar for 2012 was \$55.6 million.

We calculate organic growth by comparing last year's total revenue to this year's total revenue excluding the revenue of all acquired businesses that we have owned for less than twelve months. Once we have owned a business for one year, the revenue is included in organic revenue and organic growth is calculated based on our prior year total revenue. In 2012, our organic growth was 18.8% for the fourth quarter and 22.4% for the full year. In 2011, our organic growth was 8.8% for the fourth quarter and 19.2% for the full year.

For 2012, healthcare solutions revenue accounted for \$49.3 million, or 14.0%, of our total revenue and included sales of printers, print materials and services for hearing aid, dental, medical device and other health-related applications, compared to \$27.9 million, or 12.1%, in 2011.

Our gross profit for 2012 increased by 66.2% to \$181.2 million from \$109.0 million in 2011, after increasing from \$74.0 million in 2010. Our higher gross profit for 2012 arose primarily from an increase in sales and our increased gross profit margin for printers, materials and on-demand parts. Our gross profit margin percentage improved to 51.2% in 2012 from 47.3% in 2011 and 46.3% in 2010. Gross profit margin benefited from improvements in our cost structure, higher print materials gross profit margin due to a shift in the mix of materials towards personal and professional print materials, the addition of higher margin Z Corp and Vidar printers and the addition of Rapidform software products, partially offset by increased sales of lower margin on-demand custom parts services.

## **Table of Contents**

Our total operating expenses increased by \$46.5 million in 2012 from 2011, reflecting higher SG&A expense, primarily due to acquisition and severance expenses, higher commissions and staffing from our acquisitions; partially offset by a decrease in legal expenses associated with ongoing litigation. The increase also reflected an \$8.9 million increase in research and development expenses related to our portfolio expansion and diversification efforts.

Our operating income improved by \$25.7 million to \$60.6 million in 2012 compared to operating income of \$34.9 million in 2011 and \$20.9 million in 2010. This was primarily due to higher revenue and the increase in our gross profit noted above, partially offset by higher operating expenses, including increased acquisition expenses incurred in the amount of \$5.1 million.

Our net income for 2012 included \$38.9 million of non-cash expenses, which primarily consisted of depreciation and amortization, loss on conversion of convertible debt, stock-based compensation and non-cash interest expense, compared to \$11.0 million of non-cash expenses in 2011 which consisted of depreciation and amortization, deferred tax benefits and stock-based compensation. The increase in non-cash expenses is primarily due to amortization from acquired intangibles, the loss on conversion of convertible debt and non-cash interest on convertible notes, as well as an increase in stock-based compensation.

A number of actions or events occurred in 2012 that affected our liquidity and our balance sheet including the following:

Our unrestricted cash and cash equivalents decreased by \$23.2 million to \$155.9 million at December 31, 2012 from \$179.1 million at December 31, 2011. Our cash included \$183.7 million of cash paid for acquisitions, partially offset by \$106.9 million of net proceeds from a public equity offering carried out in June 2012 and \$53.0 million of net cash from operations. Cash at December 31, 2011 included \$145.4 million of net proceeds from the issuance of senior convertible notes in November 2011 discussed above, of which \$135.5 million of the net proceeds of the notes was used to complete the acquisition of Z Corp and Vidar in January 2012. See *Liquidity and Capital Resources* below.

During 2012, we used \$183.7 million of cash to acquire nine businesses, including deferred purchase payments from prior acquisitions, to augment our printers business, on-demand parts services and consumer solutions initiative. See *Liquidity and Capital Resources* *Cash Flow-Cash flow from investing activities*.

Our working capital increased by \$9.9 million from \$202.4 million at December 31, 2011 to \$212.3 million at December 31, 2012. See *Liquidity and Capital Resources* *Working capital* below.

Among major components of working capital, accounts receivable, net of allowances, increased by \$19.2 million from December 31, 2011 to December 31, 2012, primarily reflecting higher revenue and increased revenue from revenue categories sold on credit terms. Inventory at December 31, 2012, net of reserves, was \$12.2 million higher than its December 31, 2011 level, primarily reflecting timing of orders and delivery of finished goods print materials and raw materials, which are ordered in large quantities. Accrued and other liabilities increased by \$9.1 million primarily due to higher accrued payroll from additional staffing and timing of payments. Accounts payable increased \$0.2 million primarily reflecting timing of orders and payments to vendors associated with inventory and printer assembly.

**Table of Contents****Results of Operations for 2012, 2011 and 2010**

Table 1 below sets forth revenue and percentage of revenue by class of product and service.

**Table 1**

| <i>(Dollars in thousands)</i> | <b>2012</b> |        | <b>2011</b> |       | <b>2010</b> |        |
|-------------------------------|-------------|--------|-------------|-------|-------------|--------|
| Printers and other products   | \$ 126,798  | 35.8%  | \$ 66,665   | 28.9% | \$ 54,686   | 34.2%  |
| Materials                     | 103,182     | 29.2   | 70,641      | 30.7  | 58,431      | 36.6   |
| Services                      | 123,653     | 35.0   | 93,117      | 40.4  | 46,751      | 29.2   |
| Totals                        | 353,633     | 100.0% | 230,423     | 100%  | 159,868     | 100.0% |

**Consolidated revenue**

Consolidated revenue increased in 2012 due primarily to an 83.1% increase in printer unit sales over 2011, excluding Cube units, coupled with increased sales of print materials and on-demand custom parts service revenue from acquired and organic growth. Revenue increased in 2012 due to increased volume across all sales categories primarily from increased demand from printers and on-demand custom parts services, both organic and from acquisitions. These changes are explained in greater detail in the *Revenue by class of product and service* and *Revenue by geographic region* sections below.

At December 31, 2012 our backlog was approximately \$11.4 million, compared to \$8.3 million at December 31, 2011 and \$7.6 million at December 31, 2010. Production and delivery of our printers is generally not characterized by long lead times, backlog is more dependent on timing of customers requested delivery. In addition, custom parts services lead time and backlog depends on whether orders are for rapid prototyping or longer-range production runs. The December 31, 2012 backlog was well distributed with a portion from each of our revenue categories, including professional and production printer sales of \$3.2 million. The December 2011 backlog included orders for production printers that amounted to \$1.0 million and three orders for print materials that amounted to \$1.2 million. The December 2010 backlog included two large print materials orders placed at the end of 2010 for delivery in 2011 that amounted to \$0.8 million. The backlog at December 31, 2012 includes \$5.9 million of on-demand parts orders, compared to \$4.8 million at December 31, 2011 and \$1.9 million at December 31, 2010.

**Revenue by class of product and service****2012 compared to 2011**

Sales volumes of new products and services increased by \$53.4 million in 2012, while the volume of core products and services sold increased by \$183.3 million compared to 2011. Table 2 sets forth the change in revenue by class of product and service for 2012 compared to 2011.

**Table 2**

| <i>(Dollars in thousands)</i> | <b>Printers and Other Products</b> |         | <b>Print Materials</b> |       | <b>Services</b> |       | <b>Total</b> |        |
|-------------------------------|------------------------------------|---------|------------------------|-------|-----------------|-------|--------------|--------|
| 2011 Revenue                  | \$ 66,665                          | 28.9%   | \$ 70,641              | 30.7% | \$ 93,117       | 40.4% | \$ 230,423   | 100%   |
| Change in revenue:            |                                    |         |                        |       |                 |       |              |        |
| Volume                        |                                    |         |                        |       |                 |       |              |        |
| Core products and services    | 145,224                            | 217.8   | 6,084                  | 8.6   | 32,010          | 34.4  | 183,318      | 79.6   |
| New products and services     | 25,975                             | 39      | 26,695                 | 37.8  | 752             | 0.8   | 53,422       | 23.2   |
| Price/Mix                     | (109,109)                          | (163.7) | 1,766                  | 2.5   |                 |       | (107,343)    | (46.6) |
| Foreign currency translation  | (1,957)                            | (2.9)   | (2,004)                | (2.8) | (2,226)         | (2.4) | (6,187)      | (2.7)  |
| Net change                    | 60,133                             | 90.2    | 32,541                 | 46.1  | 30,536          | 32.8  | 123,210      | 53.5   |



## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

|              |            |       |            |       |            |       |            |      |
|--------------|------------|-------|------------|-------|------------|-------|------------|------|
| 2012 Revenue | \$ 126,798 | 35.8% | \$ 103,182 | 29.2% | \$ 123,653 | 35.0% | \$ 353,633 | 100% |
|--------------|------------|-------|------------|-------|------------|-------|------------|------|

## **Table of Contents**

We earn revenue from the sales of printers and other products, print materials and services. On a consolidated basis, revenue for 2012 increased by 53.5% to \$353.6 million from \$230.4 million for 2011 primarily due to increased sales of printers from organic and acquired growth, coupled with increased demand for print materials and on-demand parts services from acquired and organic growth.

The increase in revenue from printers and other products for 2012 compared to 2011 was primarily the result of increased sales volume, driven by increased demand for personal and professional printers and acquired printers revenue from the Z Corp and Vidar acquisitions that we completed in the first quarter of 2012. As we have introduced new printers and price points, the professional and production printer capabilities have converged. Total printers revenue increased \$60.1 million, or 90.2%, to \$126.8 million. Professional and production printers revenue increased 82.8% and personal printers revenue increased 86.7% over 2011.

Due to the relatively high price of certain production printers and a corresponding lengthy selling cycle and relatively low unit volume of these higher priced production printer sales in any particular period, a shift in the timing and concentration of orders and shipments of a few printers from one period to another can affect reported revenue in any given period. Revenue reported for printers sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles. The increase in printer revenue is consistent with our ongoing plan to accelerate printer adoption by introducing lower priced printers and is partially due to the acquisition of Z Corp and Vidar in 2012, which added only personal and professional printers.

Revenue from print materials was aided by the improvement in printer sales and by the continued expansion of printers installed over the past periods and by increased materials sales from the acquisition of the RenShape® and Z Corp® print materials. Sales of integrated materials represented 62.6% of total print materials revenue in 2012, compared to 52% in 2011.

The increase in services revenue primarily reflects revenue from on-demand parts services from both organic and acquired growth. Service revenue from on-demand custom parts was \$79.2 million, or 64.1%, of service revenue for 2012 compared to \$58.8 million, or 63.1%, of 2011 service revenue. For the fourth quarter of 2012, revenue from on-demand parts services was \$21.0 million, or 20.6%, of total fourth quarter revenue compared to \$18.7 million, or 26.7%, of total 2011 fourth quarter revenue.

For the full year 2012, Z Corp and Vidar had \$55.6 million of revenue compared to \$56.5 million in 2011. If Z Corp and Vidar had been included in our revenue for 2011, our overall revenue growth would have been 23.2% in 2012.

In addition to changes in sales volumes, including the impact of revenue from acquisitions, there are two other primary drivers of changes in revenue 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 price and mix effects relate 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 printers as the trend toward smaller, lower-priced printers has continued and the influence of new printers and materials on our operating results has grown.

### *2011 compared to 2010*

Sales volumes of new products and services increased by \$19.2 million in 2011, while the volume of core products and services sold increased by \$49.5 million compared to 2010. Table 3 sets forth the change in revenue by class of product and service for 2011 compared to 2010.

**Table of Contents****Table 3**

| <i>(Dollars in thousands)</i> | <b>Printers and Other<br/>Products</b> |       | <b>Print Materials</b> |       | <b>Services</b> |       | <b>Total</b> |       |
|-------------------------------|----------------------------------------|-------|------------------------|-------|-----------------|-------|--------------|-------|
| 2010 Revenue                  | \$ 54,686                              | 34.2% | \$ 58,431              | 36.6% | \$ 46,751       | 29.2% | \$ 159,868   | 100%  |
| Change in revenue:            |                                        |       |                        |       |                 |       |              |       |
| Volume                        |                                        |       |                        |       |                 |       |              |       |
| Core products and services    | 689                                    | 1.3   | 5,771                  | 9.9   | 43,052          | 92.1  | 49,512       | 30.9  |
| New products and services     | 13,660                                 | 25.0  | 3,708                  | 6.3   | 1,856           | 4.0   | 19,224       | 12.0  |
| Price/Mix                     | (3,504)                                | (6.4) | 724                    | 1.2   |                 |       | (2,780)      | (1.7) |
| Foreign currency translation  | 1,134                                  | 2.1   | 2,007                  | 3.4   | 1,458           | 3.1   | 4,599        | 2.9   |
| Net change                    | 11,979                                 | 21.9  | 12,210                 | 20.9  | 46,366          | 99.2  | 70,555       | 44.1  |
| 2011 Revenue                  | \$ 66,665                              | 28.9% | \$ 70,641              | 30.7% | \$ 93,117       | 40.4% | \$ 230,423   | 100%  |

As set forth in Table 1 and Table 3:

Revenue from printers and other products increased by \$12.0 million, or 21.9%, to \$66.7 million for 2011 from \$54.7 million for 2010 and decreased to 28.9% of consolidated revenue in 2011 from 34.2% in 2010. The increase in revenue from printers and other products that is due to volume for 2011 compared to 2010 was primarily the result of higher volume with a shift in the mix of printers and other products toward lower priced personal and professional printers. This increase was partially offset by a \$3.5 million unfavorable effect of price and mix and a negative \$1.1 million foreign currency translation impact.

Revenue from materials increased by \$12.2 million, or 20.9%, to \$70.6 million for 2011 from \$58.4 million for 2010. Revenue from materials was aided by the improvement in production printer sales, which are typically accompanied by significant initial materials purchases to charge up new printers and commence production, and the continued expansion of printers installed over the past periods. Materials revenue volume from our core products increased \$9.4 million coupled with a \$0.7 million favorable price and mix and a \$2.0 million favorable impact of foreign currency translation.

Revenue from services increased \$46.4 million for 2011 compared to 2010 and increased to 40.4% of consolidated revenue in 2011 from 29.2% in 2010, primarily reflecting the effect of the increase in revenue from on-demand parts services.

**Revenue by geographic region***2012 compared to 2011*

All geographic regions experienced higher levels of revenue in 2012 compared to 2011. This was principally due to continued global R&D spending, which we believe led to higher levels of printer sales and print materials sales. Revenue from U.S. operations increased as a percentage of total revenue due to revenue related to increased acquisition activity in the U.S., including the acquisitions of Quickparts, Z Corp and Vidar. The banking crisis combined with economic weakness in several European countries led to increased negative impact of foreign currency translation for the European region, while a strengthening Japanese Yen for most of 2012 resulted in a favorable foreign currency translation for the Asia-Pacific region.

Table 4 sets forth the change in revenue by geographic area for 2012 compared to 2011:

**Table 4**

Edgar Filing: 3D SYSTEMS CORP - Form 10-K

| <i>(Dollars in thousands)</i> | <b>U.S.</b> |        | <b>Europe</b> |       | <b>Asia-Pacific</b> |        | <b>Total</b> |        |
|-------------------------------|-------------|--------|---------------|-------|---------------------|--------|--------------|--------|
| 2011 Revenue                  | \$ 117,739  | 51.1%  | \$ 83,324     | 36.2% | \$ 29,360           | 12.7%  | \$ 230,423   | 100%   |
| Change in revenue:            |             |        |               |       |                     |        |              |        |
| Volume                        | 174,459     | 148.2  | 28,016        | 33.6  | 34,265              | 116.7  | 236,740      | 102.7  |
| Price/Mix                     | (95,784)    | (81.4) | (4,015)       | (4.8) | (7,544)             | (25.7) | (107,343)    | (46.6) |
| Foreign currency translation  |             |        | (6,638)       | (8.0) | 451                 | 1.5    | (6,187)      | (2.7)  |
| Net change                    | 78,675      | 66.8   | 17,363        | 20.8  | 27,172              | 92.5   | 123,210      | 53.5   |
| 2012 Revenue                  | \$ 196,414  | 55.5%  | \$ 100,687    | 28.5% | \$ 56,532           | 16.0%  | \$ 353,633   | 100%   |

## Table of Contents

As shown in Table 4:

Revenue from U.S. operations increased by \$78.7 million, or 66.8%, in 2012 to \$196.4 million from \$117.7 million in 2011. This increase was due primarily to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from non-U.S. operations increased by \$44.5 million, or 39.5%, to \$157.2 million in 2012 from \$112.7 million in 2011 and comprised 44.5% of consolidated revenue in 2012 compared to 48.9% in 2011. The increase in non-U.S. revenue, excluding the impact of foreign currency translation, was 45.0% in 2012 compared to 23.5% in 2011.

Revenue from European operations increased by \$17.4 million, or 20.8%, to \$100.7 million in 2012 from \$83.3 million in 2011. This increase was due to a \$28.0 million increase in volume, partially offset by a \$6.6 million unfavorable effect of foreign currency translation and a \$4.0 million combined unfavorable impact of price and mix.

Revenue from Asia-Pacific operations increased by \$27.1 million, or 92.5%, to \$56.5 million in 2012 from \$29.4 million in 2011. This increase was primarily due to a \$34.3 million increase in volume and a \$0.5 million favorable foreign currency translation, partially offset by a \$7.5 million unfavorable combined effect of price and mix.

*2011 compared to 2010*

All geographic regions experienced higher levels of revenue in 2011 compared to 2010. This was principally caused by continued economic recovery in 2011 and an increase of R&D spending, which we believe led to higher levels of printer sales and print material sales. Revenue from U.S. operations increased as a percentage of total revenue due to revenue related to increased acquisition activity in the U.S., including the acquisition of Quickparts. The continued volatility in foreign currencies led to increased positive impact of foreign currency translation for the European region, while a strengthening Japanese Yen resulted in favorable foreign currency translation for the Asia-Pacific region.

Table 5 sets forth the change in revenue by geographic area for 2011 compared to 2010.

**Table 5**

| <i>(Dollars in thousands)</i> | <b>U.S.</b> |       | <b>Europe</b> |       | <b>Asia-Pacific</b> |       | <b>Total</b> |       |
|-------------------------------|-------------|-------|---------------|-------|---------------------|-------|--------------|-------|
| 2010 Revenue                  | \$ 72,452   | 45.3% | \$ 65,539     | 41%   | \$ 21,877           | 13.7% | \$ 159,868   | 100%  |
| Change in revenue:            |             |       |               |       |                     |       |              |       |
| Volume                        | 49,628      | 68.5  | 12,841        | 19.6  | 6,267               | 28.6  | 68,736       | 43    |
| Price/Mix                     | (4,341)     | (6.0) | 1,302         | 2.0   | 259                 | 1.2   | (2,780)      | (1.7) |
| Foreign currency translation  |             |       | 3,642         | 5.6   | 957                 | 4.4   | 4,599        | 2.8   |
| Net change                    | 45,287      | 62.5  | 17,785        | 27.1  | 7,483               | 34.2  | 70,555       | 44.1  |
| 2011 Revenue                  | \$ 117,739  | 51.1% | \$ 83,324     | 36.2% | \$ 29,360           | 12.7% | \$ 230,423   | 100%  |

## Table of Contents

As shown in Table 5:

Revenue from U.S. operations increased by \$45.2 million or 62.5% in 2011 to \$117.7 million from \$72.5 million in 2010. This increase was due primarily to higher volume coupled with the favorable combined effect of price and mix.

Revenue from non-U.S. increased by \$25.3 million or 28.9% to \$112.7 million in 2011 from \$87.4 million in 2010 and comprised 48.9% of consolidated revenue in 2011 compared to 54.7% in 2010. The increase in non-U.S. revenue, excluding the impact of foreign currency translation, was 23.5% in 2011.

Revenue from European operations increased by \$17.8 million, or 27.1%, to \$83.3 million in 2011 from \$65.5 million in 2010. This increase was due to \$12.8 million increase in volume, a \$3.6 million favorable effect of foreign currency translation and a \$1.3 million favorable combined effect of price and mix.

Revenue from Asia-Pacific operations increased by \$7.5 million, or 34.2%, to \$29.4 million in 2011 from \$21.9 million in 2010. This increase was caused primarily by a \$6.2 million increase in volume, a \$1.0 million favorable effect of foreign currency translation and a \$0.3 million favorable combined effect of price and mix.

### Gross profit and gross profit margins

Gross profit margin improved in both 2012 and 2011. Table 6 sets forth gross profit and gross profit margin for our products and services.

**Table 6**

|                             | Year Ended December 31, |              |              |              |              |              |
|-----------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|
|                             | 2012                    |              | 2011         |              | 2010         |              |
| (Dollars in thousands)      | Gross Profit            | Gross Profit | Gross Profit | Gross Profit | Gross Profit | Gross Profit |
| Printers and other products | \$ 54,276               | 42.8%        | \$ 24,967    | 37.4%        | \$ 21,352    | 39.0%        |
| Print materials             | 70,418                  | 68.2         | 45,751       | 64.8         | 35,724       | 61.1         |
| Services                    | 56,502                  | 45.7         | 38,310       | 41.1         | 16,900       | 36.1         |
| Total                       | \$ 181,196              | 51.2%        | \$ 109,028   | 47.3%        | \$ 73,976    | 46.3%        |

On a consolidated basis, gross profit for 2012 increased by \$72.2 million, or 66.2%, to \$181.2 million compared to \$109.0 million and \$74.0 million for 2011 and 2010, respectively. The higher gross profit margin reflects improved overhead absorption due to higher sales from all revenue categories, increased revenue from higher gross profit margin personal and professional materials and continued operational efficiencies. Gross profit margin for 2012 increased 3.9 percentage points from 47.3% in 2011 to 51.2% in 2012.

Printers and other products gross profit increased by 117.4% to \$54.3 million in 2012 from \$25.0 million in 2011, while the gross profit margin increased by 5.4 percentage points in 2012 to 42.8%. This increase in gross profit margin resulted from improved cost structure, the addition of higher margin Z Corp and Vidar professional printers and increased revenue from software products which have higher gross profit margins.

Gross profit for materials improved by 53.9% to \$70.4 million, with the gross profit margin increasing 3.4 percentage points to 68.2% from 64.8% in 2011. This is primarily due to the increase in sales volume of materials resulting in improved overhead absorption over higher revenue and a larger percentage of materials sales from higher gross profit margin integrated materials.

**Table of Contents**

Gross profit for services increased by 47.5% to \$56.5 million compared to \$38.3 million in 2011, with the gross profit margin increasing 4.6 percentage points to 45.7%. The improved gross profit is due to the increased revenue from on-demand parts services. The increase in gross profit margin for services reflected a 4.8 percentage point increase in on-demand parts service gross profit margin to 42.7% in 2012 compared to 37.9% in 2011 and a 3.6 percentage point increase of printer services margin to 50.1% in 2012 compared to 46.5% in 2011.

*Operating expenses*

As shown in the table below, total operating expenses increased by \$46.5 million, or 62.7%, to \$120.6 million for 2012, after increasing to \$74.1 million for 2011 from \$53.1 million for 2010, and increased to 34.1% of revenue compared to 32.2% and 33.2% in 2011 and 2010, respectively. This increase consists of \$37.6 million of higher selling, general and administrative expenses and \$8.9 million of higher research and development expenses, both of which are discussed below.

**Table 7**

|                                              | 2012       |           | Year Ended December 31,<br>2011 |           | 2010      |           |
|----------------------------------------------|------------|-----------|---------------------------------|-----------|-----------|-----------|
|                                              | Amount     | % Revenue | Amount                          | % Revenue | Amount    | % Revenue |
| <i>(Dollars in thousands)</i>                |            |           |                                 |           |           |           |
| Selling, general and administrative expenses | \$ 97,422  | 27.5%     | \$ 59,795                       | 26.0%     | \$ 42,331 | 26.5%     |
| Research and development expenses            | 23,203     | 6.6       | 14,331                          | 6.2       | 10,725    | 6.7       |
| Total operating expenses                     | \$ 120,625 | 34.1%     | \$ 74,126                       | 32.2%     | \$ 53,056 | 33.2%     |

*Selling, general, and administrative costs**2012 compared to 2011*

Selling, general and administrative expenses increased by \$37.6 million, or 62.9%, to \$97.4 million in 2012 from \$59.8 million in 2011.

The \$37.6 million increase in selling, general and administrative expenses in 2012 included an \$18.4 million increase in salary, benefits and contract labor costs. The majority of that was related to increased commissions on higher revenues and operating costs for newly acquired businesses. SG&A expenses were also impacted by a \$3.7 million increase in marketing expenses, a \$2.5 million increase in agent commissions, a \$1.7 million increase in occupancy costs, a \$1.3 million increase in bad debt expense and a \$1.2 million increase in travel costs, partially offset by a \$4.2 million improvement in legal expenses. In addition, SG&A included \$5.1 million of acquisition expenses.

Depreciation and amortization increased \$10.1 million to \$21.2 million in 2012 from \$11.1 million in 2011. The increases in depreciation and amortization in 2012 and 2011 were primarily due to additional capital equipment placed in service and intangible assets from acquired businesses.

*2011 compared to 2010*

Selling, general and administrative expenses increased by \$17.5 million or 41.3%, to \$59.8 million in 2011 from \$42.3 million in 2010 after increasing by \$6.8 million in 2010. As a percentage of revenue, selling, general and administrative expenses were 26.0% and 26.5% in 2011 and 2010, respectively.

The \$17.5 million increase in selling, general and administrative expenses in 2011 was primarily due to a \$6.8 million increase in salary, benefits and contract labor costs. The majority of that was related to increased commissions on higher revenues and operating costs for newly acquired businesses. SG&A expenses were also impacted by a \$1.6 million increase in bad debt expense, a \$1.4 million increase in litigation costs and a \$0.8 million increase in marketing costs. In addition, SG&A included \$3.8 million of acquisition expenses, primarily from fourth quarter acquisition activity.

## Table of Contents

Depreciation and amortization increased to \$11.5 million in 2011 from \$7.5 million in 2010. The increases in depreciation and amortization in 2011 and 2010 were primarily due to additional capital equipment placed in service and intangibles from acquired businesses.

### *Research and development expenses*

Research and development expenses increased by 61.9% to \$23.2 million in 2012 from \$14.3 million in 2011. The \$8.9 million increase in 2012 was due to a \$4.5 million increase in R&D salary and compensation expenses primarily due to new product development and investment in support of our portfolio expansion and diversification efforts, a \$2.0 million increase in supplies and equipment and a \$0.4 million increase in outside consulting and outsourcing services.

In 2011, research and development expenses increased 33.6% to \$14.3 million from \$10.7 million in 2010. The increase in 2011 was principally due to a \$2.0 million increase in R&D compensation expenses primarily related to new product development and investment in consumer solutions, a \$1.0 million increase in materials and \$0.3 million increase in outside consulting and outsourcing services.

### *Income from operations*

Operating income increased \$25.7 million to \$60.6 million in 2012 compared to \$34.9 million in 2011 and \$20.9 million in 2010. The increase in operating income was primarily due to increased revenue in all categories, which led to improved overhead absorption, partially offset by increased operating expenses. See *Gross profit and gross profit margins* and *Selling, general and administrative costs* above.

The following table sets forth operating income from operations by geographic area for 2012, 2011 and 2010.

**Table 8**

| <i>(Dollars in thousands)</i> | Year Ended December 31, |           |           |
|-------------------------------|-------------------------|-----------|-----------|
|                               | 2012                    | 2011      | 2010      |
| Income from operations        |                         |           |           |
| United States                 | \$ 37,743               | \$ 19,045 | \$ 10,946 |
| Germany                       | 1,305                   | 1,509     | 935       |
| Other Europe                  | 5,415                   | 6,645     | 1,935     |
| Asia Pacific                  | 16,528                  | 7,152     | 6,356     |
| Subtotal                      | 60,991                  | 34,351    | 20,172    |
| Inter-segment elimination     | (420)                   | 551       | 748       |
| Total                         | \$ 60,571               | \$ 34,902 | \$ 20,920 |

With respect to the U.S., in 2012, 2011 and 2010, the changes in operating income by geographic area reflected the same factors relating to our consolidated operating income that are discussed above.

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. in each of 2012, 2011 and 2010 resulted primarily from changes in sales volume, transfer pricing and foreign currency translation.



## **Table of Contents**

### *Interest and other expenses, net*

Interest and other expenses, net, which consists primarily of interest and other expense and foreign exchange gain or loss, amounted to \$17.3 million of net expense for 2012. Interest and other expense, net amounted to \$2.5 million for 2011 and \$1.2 million for 2010. For 2012, interest and other expense, net included \$12.5 million of interest expense, including \$12.0 million of interest expense related to the 5.50% senior convertible notes, \$7.3 million of other expense, primarily related to loss on conversion of convertible notes; partially offset by \$2.4 million of interest and other income and \$0.1 million of foreign exchange gain. For 2011, interest and other expense, net included \$2.1 million of interest expense, \$0.4 million of other expense and \$0.1 million of foreign exchange loss; partially offset by \$0.1 million of interest and other income, compared to \$0.9 million interest and other expense and \$0.3 million foreign exchange loss for 2010. The 2012 increase resulted primarily from the senior convertible notes interest and losses on conversion. The 2011 increase resulted from lower interest income on investments in 2011 and increased interest expense related to the 5.50% senior convertible notes issued in November 2011 which amounted to \$1.3 million of interest expense for 2011.

### *Provisions for income taxes*

We recorded a \$4.3 million expense for income taxes in 2012. We recorded a \$3.0 million benefit for income taxes and a \$0.2 million provision for income taxes in 2011 and 2010, respectively. In 2012, this expense primarily reflects a \$6.2 million expense related to the use of U.S. net operating losses against which the valuation allowance had been released during 2011; \$2.8 million of tax expense in foreign jurisdictions; partially offset by a \$5.4 million benefit due to the release of valuation allowances associated with U.S. deferred tax assets. In 2011, this benefit primarily reflects a \$6.2 million benefit due to \$17.0 million release of valuation allowances associated with U.S. deferred tax assets, partially offset by \$1.6 million of tax expense in foreign jurisdictions. In 2010, this provision primarily reflected \$1.3 million of tax expense in foreign jurisdictions, partially offset by a \$1.2 million benefit due to a \$3.0 million release of valuation allowances associated with U.S. deferred tax assets.

During the fourth quarter of 2012, based upon our recent results of operations and expected profitability in the future, we concluded that it is more likely than not that the remainder of our current U.S. deferred tax assets will be realized. As a result, in accordance with ASC 740, during 2012 we reversed \$5.4 million of the valuation allowance related to \$12.4 million of reserves, accruals and tax credits and to \$7.6 million of net operating losses for state income tax purposes. The reversal of the valuation allowance resulted in a non-cash income tax benefit of \$5.4 million, which resulted in a benefit of \$0.10 per share. During the second quarter of 2011, based upon our recent results of operations and expected profitability in the future, we concluded that it is more likely than not that a portion of our U.S. net deferred tax assets will be realized. As a result, in accordance with ASC 740, during 2011 we reversed \$6.2 million of the valuation allowance related to \$17.0 million of net operating carryforwards. The reversal of the valuation allowance resulted in a non-cash income tax benefit of \$6.2 million, which resulted in a benefit of \$0.12 per share. During 2010, we reversed \$1.2 million of valuation allowance related to \$3.0 million of net operating loss carryforwards. The reversal of the valuation allowance resulted in a non-cash income tax benefit of \$1.2 million, which resulted in a benefit of \$0.03 per share.

In 2012, 2011 and 2010, we utilized U.S. net operating loss carryforwards, which had had a full valuation allowance against them, to eliminate any U.S. federal income taxes and to significantly reduce U.S. state taxes. In 2012, we also utilized tax credits, which had full valuation allowances against them, to reduce U.S. federal income taxes. Absent the use of these net operating loss carryforwards and tax credits, income tax expense would have been \$10.8 million, \$5.1 million and \$6.7 million, respectively, and the income tax rate would have been 24.9%, 15.6% and 33.9%, respectively. Absent the combined impact of the use of these net operating loss carryforwards and the release of the valuation allowances in 2012, 2011 and 2010, income tax expense would have been \$16.2 million, \$11.3 million and \$7.8 million, respectively, and the income tax rate would have been 37.3%, 34.8% and 39.3%, respectively.

Our \$4.3 million expense for income taxes in 2012 increased from 2011 principally due to increased U.S. income in 2012 and to the deferred tax expense impact of utilizing net operating loss carryforwards against which valuation allowance had been released in 2011, offset by the favorable impact of the valuation allowance release during the fourth quarter of 2012.

Our \$3.0 million benefit for income taxes in 2011 increased from 2010 principally due to the \$6.2 million favorable impact from the release of valuation allowances associated with U.S. deferred tax assets.

---

## **Table of Contents**

See Note 20 to the Consolidated Financial Statements.

### *Net income; net income available to 3D Systems common stockholders*

In 2012 we generated net income of \$38.9 million, compared to net income of \$35.4 million in 2011 and net income of \$19.6 million in 2010.

The principal reasons for our higher net income in 2012, which are discussed in more detail above, were a \$123.2 million increase in revenue and a \$72.2 million increase in gross profit, partially offset by \$46.5 million higher operating expenses as a result of higher commissions, operating costs of acquired companies and acquisition expenses.

The principal reasons for our higher net income in 2011, which are discussed in more detail above, were a \$70.6 million increase in revenue and a \$35.0 million increase in gross profit, partially offset by \$21.0 million higher operating expenses as a result of higher commissions, operating costs of acquired companies and acquisition expenses.

Net income available to common stockholders was \$38.9 million for 2012, \$35.4 million for 2011 and \$19.6 million for 2010. On a per share basis, our basic net income per share available to the common stockholders was \$0.72 in 2012 and our diluted net income per share available to common stockholders was \$0.71. In 2011, our basic net income per share available to the common stockholders was \$0.71 and our diluted net income per share available to common stockholders was \$0.70. This is an improvement over our net income per share available to the common stockholders, on a basic and diluted basis, of \$0.42 per share for 2010.

The calculation of diluted income per share excluded 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 an increase to the net earnings per share. The average outstanding diluted shares calculation also excluded shares that may be issued upon conversion of the outstanding senior convertible notes because the effect of their inclusion would have been anti-dilutive resulting in an increase to the net earnings per share.

In February 2013, we announced a three-for-two stock split, in the form of a stock dividend. Trading will begin on a split-adjusted basis on February 25, 2013. On a split-adjusted basis, 2012 weighted average shares for basic and diluted net income per share would have been 87,797 shares and 90,804 shares respectively and net income per share, on a basic and diluted basis, would have been \$0.43.

See Notes 17 and 24 to the Consolidated Financial Statements.

### **Other Financial Information**

In addition to our results determined under U.S. generally accepted accounting principles ( GAAP ) discussed above, management believes non-GAAP financial measures which adjust net income and earnings per share are useful to investors in evaluating our operating performance.

We use non-GAAP financial measures of adjusted net income and adjusted earnings per share to supplement our Consolidated Financial Statements presented on a GAAP basis to facilitate a better understanding of the impact that several significant, strategic acquisitions had on our financial results.

These non-GAAP financial measures have not been prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies and they are subject to inherent limitations as they reflect the exercise of judgments by our management about which costs, expenses and other items are excluded from our GAAP financial statements in determining our non-GAAP financial measures. We have sought to compensate for these limitations by analyzing current and expected future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP financial statements as required in our public disclosures as well as reconciliations of our non-GAAP financial measures of adjusted net income and adjusted earnings per share to our GAAP financial statements.

The presentation of our non-GAAP financial measures which adjust net income and earnings per share are not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. These non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.



## Table of Contents

Our non-GAAP financial measures which adjust net income and earnings per share are adjusted for the following:

*Stock-based compensation expenses.* We exclude the tax-effected stock-based compensation expenses from non-GAAP measures primarily because they are non-cash.

*Amortization of intangibles.* We exclude the tax-effected amortization of intangible assets. The increase in recent periods is primarily in connection with acquisitions of businesses.

*Acquisition and severance expenses.* We exclude the tax-effected charges associated with the acquisition of businesses and the related severance expenses.

*Non-cash interest expenses.* We exclude tax-effected, non-cash interest expenses, primarily related to the amortization costs associated with our outstanding senior convertible notes.

*Release of valuation allowance on deferred tax assets.* We exclude the tax-effected, non-cash net benefit of the releases of portions of the valuation allowance on deferred tax assets.

*Loss on conversion of convertible notes.* We exclude the tax-effected, loss on conversion of convertible notes.

*Net gain on acquisitions and litigation settlements.* We exclude the tax-effected, net gain or loss on acquisitions and litigation settlements.

## Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

Table 9

| (Dollars in thousands, except per share)                    | Year Ended December 31, |           |           |
|-------------------------------------------------------------|-------------------------|-----------|-----------|
|                                                             | 2012                    | 2011      | 2010      |
| GAAP net income                                             | \$ 38,941               | \$ 35,420 | \$ 19,566 |
| Stock-based compensation                                    | 4,613                   | 2,637     | 1,406     |
| Amortization of intangibles <sup>(a)</sup>                  | 11,452                  | 5,050     | 1,939     |
| Acquisition and severance expenses                          | 4,982                   | 3,664     | 646       |
| Non-cash interest expense                                   | 3,489                   | 400       |           |
| Loss on convertible notes                                   | 6,295                   |           |           |
| Net gain on acquisitions and litigation settlements         | (1,296)                 |           |           |
| Release of valuation allowance on deferred tax assets       | (610)                   | (6,221)   | (1,162)   |
| Non-GAAP adjusted net income                                | \$ 67,866               | \$ 40,950 | \$ 22,395 |
| Non-GAAP adjusted basic earnings per share                  | \$ 1.26                 | \$ 0.82   | \$ 0.49   |
| Non-GAAP adjusted diluted earnings per share <sup>(b)</sup> | \$ 1.25                 | \$ 0.81   | \$ 0.48   |

(a) Represents amortization expense for the years ended December 31, 2012, 2011 and 2010, of which \$193, \$237 and \$475, respectively, are included in cost of sales and the remaining \$11,259, \$4,813 and \$1,464, respectively, are included in operating expenses.

(b) Quarterly non-GAAP diluted earnings per share for 2012 were \$0.25 for the first quarter, \$0.27 in the second quarter, \$0.32 in third quarter and \$0.39 for the fourth quarter. For 2011, non-GAAP diluted earnings per share were \$0.17 in the first quarter, \$0.19 in the second quarter, \$0.18 in the third quarter and \$0.27 in the fourth quarter.

## **Table of Contents**

### **Liquidity and Capital Resources**

Our cash flow from operations and the net proceeds from capital markets transactions in 2012 have enabled us to continue to execute our growth strategies, including our acquisitions in 2012. During 2012, we generated \$53.0 million of cash from operations and utilized \$183.7 million of cash to fund acquisitions.

Operating cash flow, a key source of our liquidity, was \$53.0 million in 2012, an increase of \$25.3 million, or 91.8%, as compared to 2011. In 2011, cash provided by operations was \$27.7 million.

Unrestricted cash and cash equivalents decreased by \$23.2 million to \$155.9 million at December 31, 2012 from \$179.1 million at December 31, 2011 and \$37.3 million at December 31, 2010.

During 2012, we completed a common stock offering that resulted in \$106.9 million in net proceeds. The cash at December 31, 2011 included \$145.4 million net proceeds from senior convertible notes, of which \$135.5 million was used to complete the acquisition of Z Corp and Vidar on January 3, 2012. During 2011, we also completed a common stock offering that resulted in net proceeds of \$62.1 million.

Acquisitions constituted a \$183.7 million use of cash in 2012, including the completion of nine acquisitions, as compared to \$92.7 million for the completion of twelve acquisitions in 2011.

Our net working capital increased by \$9.9 million to \$212.3 million at December 31, 2012 from \$202.4 million at December 31, 2011, which included the net proceeds from the senior convertible notes issuance which was subsequently used to complete the purchase of Z Corp and Vidar.

See *Cash flow and Lease obligations* below.

We have an effective registration statement on Form S-3 under which, among other things, we may issue up to \$300.0 million of securities. We issued \$112.1 million of Common Stock in 2012 in reliance upon this registration statement and the remaining \$187.9 million of securities covered by it may be issued until June 12, 2015. We may file a new registration statement at any time to increase these available amounts as necessary to provide flexibility to execute our growth strategy.

During 2012, we completed a common stock offering that resulted in \$106.9 million of net cash proceeds. During 2011, we completed a common stock offering that resulted in \$62.1 million of cash, net and we completed a private placement of 5.5% Senior Convertible Notes due 2016 that resulted in \$145.4 million of cash, net.

We have relied upon our unrestricted cash, cash flow from operations, and capital markets transactions to meet our cash requirements for working capital, capital expenditures and acquisitions. However, it is possible that we may need to raise additional funds to finance our activities beyond the next twelve months or to consummate significant acquisitions of other businesses, assets, products or technologies. If needed, we may be able to raise such funds through the sales of equity or debt securities to the public or selected investors, by borrowing from financial institutions, selling assets or restructuring debt. There is no assurance, however, that funds will be available from these sources in the amounts or on terms acceptable to us.

Even though we may not need additional funds, we may still elect to sell additional equity or debt securities or enter into a credit facility for other reasons. If we raise additional funds by issuing equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we may issue may have rights, preferences or privileges senior to those of our common stock.

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 strive to minimize our credit risk by investing primarily in investment grade, liquid instruments and limit exposure to any one issuer depending upon credit quality.



**Table of Contents**

A summary of the components of liquidity is shown below in Table 10.

**Table 10**

| <i>(Dollars in thousands)</i> | December 31, |            |
|-------------------------------|--------------|------------|
|                               | 2012         | 2011       |
| Cash and cash equivalents     | \$ 155,859   | \$ 179,120 |
| Working capital               | \$ 212,285   | \$ 202,357 |
| Total stockholders' equity    | \$ 480,333   | \$ 254,788 |

**Cash flow**

A summary of the components of cash flows is shown below in Table 11.

**Table 11**

| <i>(Dollars in thousands)</i>                        | Year Ended December 31, |            |           |
|------------------------------------------------------|-------------------------|------------|-----------|
|                                                      | 2012                    | 2011       | 2010      |
| Cash provided by operating activities                | \$ 53,044               | \$ 27,660  | \$ 31,844 |
| Cash used in investing activities                    | (187,654)               | (95,709)   | (20,774)  |
| Cash provided by financing activities                | 111,126                 | 209,975    | 1,041     |
| Effect of exchange rate changes on cash              | 223                     | (155)      | 325       |
| Net (decrease) increase in cash and cash equivalents | \$ (23,261)             | \$ 141,771 | \$ 12,436 |

**Cash flow from operations****2012 compared to 2011**

For the year ended December 31, 2012, we generated \$53.0 million of net cash from operating activities. This change in cash primarily consisted of our \$38.9 million net income, \$38.9 million of non-cash charges that were included in our net income and \$24.8 million of cash used in net changes in operating accounts.

The principal changes in non-cash items that favorably affected operating cash flow included \$21.2 million of depreciation and amortization expense, \$7.0 million loss on conversion of convertible notes, and \$5.1 million of stock-based compensation expense, partially offset by \$0.7 million deferred tax benefit.

Changes in working capital that resulted in a source of cash included the following:

a \$9.1 million increase in accrued liabilities;

Accrued liabilities increased primarily due to an increase in accrued compensation and benefits from the timing of payroll cycles, increased salaries related to acquisitions and higher commissions as a result of increased revenue.

Changes in working capital that resulted in a use of cash included the following:

a \$19.2 million increase in accounts receivable, net;

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

a \$12.2 million increase in inventory;

a \$1.3 million decrease in customer deposits;

a \$0.8 million increase in prepaid expenses and other current assets; and

a \$0.2 million decrease in accounts payable.



## **Table of Contents**

Accounts receivable increased as a result of the record revenues for 2012 and the increase in days sales outstanding to 72 days in 2012 from 67 days in 2011. Inventories increased primarily due to the timing of orders and delivery of finished goods materials and raw materials, which are purchased in large quantities.

### *2011 compared to 2010*

For the year ended December 31, 2011, we generated \$27.7 million of net cash from operating activities. This change in cash primarily consisted of our \$35.4 million net income, \$11.0 million of non-cash charges that were included in our net income and \$18.7 million of cash used in net changes in operating accounts.

The principal changes in non-cash items that favorably affected operating cash flow included \$11.5 million of depreciation and amortization expense, \$2.6 million of stock-based compensation expense, partially offset by \$5.1 million deferred tax benefit.

Changes in working capital that resulted in a source of cash included the following:

a \$0.9 million increase in customer deposits; and

a \$0.5 million increase in deferred revenue.

Customer deposits increased as a result of an increase in printer orders received near the end of the year. Deferred revenue increased as a result of warranties associated with increased sales of printers.

Changes in working capital that resulted in a use of cash included the following:

a \$12.1 million increase in accounts receivable, net;

a \$3.5 million decrease in accounts payable; and

a \$2.6 million increase in inventory.

Inventories increased primarily due to the timing of orders and delivery of finished goods materials and raw materials, which are purchased in large quantities. Accounts payable decreased as a result of timing of orders and payments to vendors. Accrued liabilities decreased primarily due to lower accrued payroll and liabilities for earnouts related to acquired companies. Accounts receivable increased as a result of the record revenues for 2011 and the increase in days sales outstanding to 67 days in 2011 from 64 days in 2010.

### *Cash flow from investing activities*

Net cash used in investing activities in 2012 increased to \$187.7 million from \$95.7 million in 2011. In 2012 this consisted of \$183.7 million related to acquisitions and \$3.2 million of net purchases of property and equipment and \$0.7 million of additions to license and patent costs. See Notes 3, 5 and 6 to the Consolidated Financial Statements.

Net cash used in investing activities in 2011 increased to \$95.7 million from \$20.8 million in 2010. In 2011 this consisted of \$92.7 million related to acquisitions and \$3.0 million of net purchases of property and equipment and additions to license and patent costs. In 2010 this consisted of \$19.2 million related to acquisitions and \$1.6 million of net purchases of property and equipment and additions to license and patent costs.

Capital expenditures were \$3.2 million in 2012, \$2.9 million in 2011 and \$1.3 million in 2010. Capital expenditures in 2012, 2011 and 2010 primarily consisted of expenditures for tooling and printers associated with our new product development efforts and leasehold improvements and equipment to support our on-demand custom parts service.

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

As discussed below, we completed 31 business acquisitions during 2010, 2011 and 2012. The majority of the acquisitions have resulted in the recording of goodwill. This goodwill typically arises because the purchase price for these businesses reflects a number of factors including the future earnings and cash flow potential of these businesses; the multiples to earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers; the competitive nature of the process by which we acquired the business; and the complementary strategic fit and resulting synergies these businesses bring to existing operations. See Note 7 to the Consolidated Financial Statements.

## **Table of Contents**

### *2012 acquisitions*

We acquired nine businesses in 2012 for cash consideration of \$183.7 million, net of cash acquired, with an additional \$7.7 million of consideration paid in the form of common stock. Two of the acquisitions were related to on-demand custom parts services, three were building blocks for our consumer growth initiative, two acquisitions were related to our printers business, one was related to healthcare solutions and one was related to our 3D authoring solutions initiative. In addition, we made deferred purchase payments of \$0.4 million in connection with acquisitions completed in 2011. See Note 3 to the Consolidated Financial Statements.

### *2011 acquisitions*

We acquired twelve businesses in 2011 for cash consideration of \$92.7 million, net of cash acquired, with an additional \$3.0 million of consideration paid in the form of common stock. Five of the acquisitions were related to on-demand custom parts services, four were building blocks for our consumer growth initiative and three acquisitions were related to our printers business. In addition, we made deferred purchase payments of \$3.7 million in connection with acquisitions completed in 2010. See Note 3 to the Consolidated Financial Statements.

### *2010 acquisitions*

We acquired seven businesses in 2010 for consideration of \$19.2 million, net of cash acquired. Six of the acquisitions were related to on-demand custom parts services and one acquisition was related to personal 3D printers. In addition, in 2010 we made deferred payments of \$1.3 million in connection with the 2009 acquisitions. See Note 3 to the Consolidated Financial Statements.

### *Recent acquisition developments*

As discussed above, subsequent to our 2012 year-end, we acquired COWEB and signed a definitive agreement to acquire Geomagic. See Notes 3 and 24 to the Consolidated Financial Statements.

### *Cash flow from financing activities*

As previously discussed, we have an effective registration statement on Form S-3 under which, among other things, we may issue up to \$300.0 million of securities. We issued \$112.1 million of Common Stock in 2012 in reliance upon this registration statement and the remaining \$187.9 million of securities covered by it may be issued until June 12, 2015. Subject to the limitations of our Certificate of Incorporation and applicable law, we are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We may file a new registration statement at any time to increase these available amounts as necessary to provide flexibility to execute our growth strategy.

In June 2012, we completed an equity offering netting \$106.9 million in proceeds after deducting related expenses. In early 2011, we completed an equity offering netting \$62.1 million in proceeds after deducting related expenses. In November 2011, we issued \$152.0 million in senior convertible notes due 2016 in a private placement, netting \$145.4 million in proceeds after deducting related expenses, of which \$135.5 million was subsequently paid to complete the acquisition of Z Corp and Vidar on January 3, 2012. See Note 3 to the Consolidated Financial Statements.

Net cash provided by financing activities decreased to \$111.1 million in 2012 from \$210.0 million in 2011. Net cash provided by financing activities in 2010 was \$1.0 million. The 2012 cash provided by financing primarily resulted from the \$106.9 million of net proceeds from the common stock issuance and from \$4.4 million of stock based compensation proceeds. The 2011 proceeds primarily resulted from the previously discussed net proceeds of the common stock issuance and net proceeds of the convertible notes issuance and from \$2.8 million of stock-based compensation proceeds. The cash provided by financing activities in 2010 resulted primarily from higher stock option exercise activity.

**Table of Contents*****Contractual Commitments and Off-Balance Sheet Arrangements***

Our principal commitments at December 31, 2012 consisted of the capital leases on our Rock Hill facility, operating leases, deferred purchase price and earnouts on acquisitions and purchase obligations, which are discussed in greater detail below. Tables 11 and 12 below summarize our contractual obligations as of December 31, 2012.

Future contractual payments at December 31, 2012 are set forth below.

**Table 12**

| <i>(Dollars in thousands)</i>           | Years Ending December 31, |           |            |             | Total      |
|-----------------------------------------|---------------------------|-----------|------------|-------------|------------|
|                                         | 2013                      | 2014-2015 | 2016-2017  | Later Years |            |
| Capitalized lease obligations           | \$ 698                    | \$ 1,406  | \$ 1,392   | \$ 10,345   | \$ 13,841  |
| Non-cancelable operating leases         | 4,269                     | 4,611     | 2,523      | 1,012       | 12,415     |
| Purchase obligations                    | 10,894                    |           |            |             | 10,894     |
| Deferred purchase price on acquisitions | 1,465                     |           |            |             | 1,465      |
| Earnouts on acquisitions                | 1,192                     | 1,454     |            |             | 2,646      |
| Principal of senior convertible notes   |                           |           | 90,960     |             | 90,960     |
| Interest on senior convertible notes    | 7,621                     | 16,048    | 8,097      |             | 31,766     |
| Total                                   | \$ 26,139                 | \$ 23,519 | \$ 102,972 | \$ 11,357   | \$ 163,987 |

***Debt and lease obligations******Debt***

As discussed above, in November 2011, we issued senior convertible notes due 2016 in an aggregate principal amount of \$152.0 million. These notes bear interest at a fixed rate of 5.50% per annum, payable June 15 and December 15 of each year while they are outstanding. Interest payments began June 15, 2012. The net proceeds of the notes were used to fund the acquisition of Z Corp and Vidar and for general corporate purposes.

The notes have an initial conversion rate of 46.6021 shares of Common Stock per \$.001 million principal amount of notes, which amounts to a conversion price of \$21.46 per common share. Upon conversion, the Company has the option to pay cash or issue Common Stock, or a combination thereof. The aggregate principal amount of these notes then outstanding matures on December 15, 2016, unless earlier converted or repurchased in accordance with the terms of the notes.

Conditions for conversion have been satisfied and the notes are convertible. During 2012 note holders converted \$61.0 million aggregate principal amount of notes, which converted into 2.8 million shares of common stock. We recognized a \$7.0 million loss on conversion of these notes in other expense, net. As of December 31, 2012, the aggregate principal amount of notes outstanding was \$91.0 million. If additional conversions occur, we will recognize the impact of those conversions in interest and other expenses, net and interest expense going forward will be reduced.

From January 1, 2013 through February 15, 2013, note holders have converted an additional \$34.6 million aggregate principal amount of notes, which converted into 1.6 million shares of common stock. We expect to recognize a loss of \$4.8 million on conversion of these notes in other expense, net during the first quarter of 2013. As of February 15, 2013, the aggregate principal amount of notes outstanding was \$56.3 million, and we expect annual interest for the years 2013 through 2016 to be approximately \$5.3 million per year.

The notes contain a number of covenants covering, among other things, payment of notes, reporting, maintenance of existence and payment of taxes. Failure to comply with these covenants, or any other event of default, could result in acceleration of the principal amount and accrued and unpaid interest on the notes. We were in compliance with all covenants as of December 31, 2012. See Note 11 to the Consolidated Financial Statements. The notes are senior in right of payment (as defined in the note Agreement).



**Table of Contents***Leases*

On February 8, 2006, we entered into a lease agreement with KDC-Carolina Investments 3, LP (now Lex Rock Hill, LP successor) pursuant to which KDC constructed and leased to us an approximately 80,000 square foot building in Rock Hill, South Carolina. Under the terms of this lease the landlord agreed to lease the building to us for an initial 15-year term following completion. We took occupancy of the building in November 2006. See Note 12 to the Consolidated Financial Statements.

After its initial term, the lease provides us with the option to renew the lease for two additional five-year terms as well as the right to cause the landlord, subject to certain terms and conditions, to expand the leased premises during the term of the lease, in which case the term of the lease would be extended. The lease is a triple net lease and provides for the payment of base rent of approximately \$0.7 million in 2013 through 2021, including a rent escalation in 2016. Under the terms of the lease, we are obligated to pay all taxes, insurance, utilities and other operating costs with respect to the leased premises.

In accordance with ASC 840, Leases, we are considered an owner of the property. Therefore, we have recorded \$7.6 million and \$7.8 million at December 31, 2012 and 2011, respectively, as building in our consolidated balance sheet with a corresponding capitalized lease obligation in the liabilities section of the consolidated balance sheet. See Note 12 to the Consolidated Financial Statements.

Our outstanding capitalized lease obligations at December 31, 2012 and December 31, 2011 were as follows:

**Table 13**

| <i>(Dollars in thousands)</i>                    | <b>2012</b> | <b>2011</b> |
|--------------------------------------------------|-------------|-------------|
| Capitalized lease obligations:                   |             |             |
| Current portion of capitalized lease obligations | \$ 174      | \$ 163      |
| Capitalized lease obligations, long-term portion | 7,443       | 7,609       |
| Total capitalized lease obligations              | \$ 7,617    | \$ 7,772    |

Capitalized lease obligations of \$7.6 million at December 31, 2012 decreased from \$7.8 million at December 31, 2011 primarily due to scheduled payments of principal on capital lease installments.

We lease certain other facilities under non-cancelable operating leases expiring through 2023. The leases are generally on a net-rent basis, under which we pay taxes, maintenance and insurance. We expect leases that expire to be renewed or replaced by leases on other properties. Rental expense for the years ended December 31, 2012, 2011 and 2010 was \$5.0 million, \$2.7 million and \$2.0 million, respectively.

*Other contractual commitments*

As of December 31, 2012 and 2011, we had supply commitments for printer assembly that totaled \$10.9 million.

For certain of our acquisitions, we are obligated for the payment of deferred purchase price totaling \$1.5 million. Certain of the acquisition purchase agreements contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total amount of liabilities recorded for these earnouts is \$2.6 million at December 31, 2012 compared to \$1.9 million at December 31, 2011. See Note 3 for details of acquisitions and related commitments.

*Indemnification*

In the normal course of business we periodically enter into agreements to indemnify customers or suppliers against claims of intellectual property infringement made by third parties arising from the use of our products. Historically, costs related to these indemnification provisions have not been significant. We are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.



---

## **Table of Contents**

To the extent permitted under Delaware law, we indemnify our directors and officers for certain events or occurrences while the director or officer is, or was, serving at our request in such capacity, subject to limited exceptions. The maximum potential amount of future payments we could be required to make under these indemnification obligations is unlimited; however, we have directors and officers insurance coverage that may enable us to recover future amounts paid, subject to a deductible and to the policy limits.

We 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 Consolidated Statements of Income and Other Comprehensive Income.

Changes in the fair value of derivatives are recorded in interest and other income (expense), net, in our Consolidated Statements of Income and Other Comprehensive Income. 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 Consolidated Balance Sheets.

The total impact of foreign currency related items on our Consolidated Statements of Income and Comprehensive Income was a gain of \$0.1 million for 2012, and losses of \$0.1 million and \$0.3 million for 2011 and 2010, respectively.

### **Critical Accounting Policies and Significant Estimates**

The discussion and analysis of our results of operations and financial condition set forth in this Form 10-K is based on our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make critical accounting estimates that directly impact our Consolidated Financial Statements and related disclosures.

Critical accounting estimates are estimates that meet two criteria:

The estimates require that we make assumptions about matters that are highly uncertain at the time the estimates are made; and

There exist different estimates that could reasonably be used in the current period, or changes in the estimates used are reasonably likely to occur from period to period, both of which would have a material impact on our results of operations or financial condition. On an ongoing basis, we evaluate our estimates, including those related to stock-based compensation, revenue recognition, the allowance for doubtful accounts, income taxes, inventories, goodwill and other intangible and long-lived assets and contingencies. We base our estimates and assumptions on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.



## **Table of Contents**

The following paragraphs discuss the items that we believe are the critical accounting policies most affected by significant management estimates and judgments. Management has discussed and periodically reviews these critical accounting policies, the basis for their underlying assumptions and estimates and the nature of our related disclosures herein with the Audit Committee of the Board of Directors.

### ***Revenue recognition***

Net revenue is derived primarily from the sale of products and services. The following revenue recognition policies define the manner in which we account for sales transactions.

We recognize revenue when persuasive evidence of a sales arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable and collectability is reasonably assured. We sell our products through our direct sales force and through authorized resellers. We recognize revenue on sales to resellers at the time of sale when the reseller has economic substance apart from us, and we have completed our obligations related to the sale.

We enter into sales arrangements that may provide for multiple deliverables to a customer. Sales of printers may include ancillary equipment, print materials, a warranty on the equipment, training and installation. We identify all goods and/or services that are to be delivered separately under a sales arrangement and allocate revenue to each deliverable based on either vendor-specific objective evidence ( VSOE ), or if VSOE is not determinable, then we use best estimated selling price ( BESP ) of each deliverable. The objective of BESP is to determine the price at which we would transact a sale if the deliverable was sold regularly on a stand-alone basis. We consider multiple factors, including but not limited to, market conditions, geographies, competitive landscape, and entity-specific factors such as internal costs, gross margin objectives and pricing practices when estimating BESP. Consideration in a multiple-element arrangement is then allocated to the elements on a relative sales value basis using either VSOE or BESP for all the elements. We also evaluate the impact of undelivered items on the functionality of delivered items for each sales transaction and, where appropriate, defer revenue on delivered items when that functionality has been affected. Functionality is determined to be met if the delivered products or services represent a separate earnings process.

### ***Hardware***

In general, revenues are separated between printers and other products, print materials, training services, maintenance services and installation services. The allocated revenue for each deliverable is then recognized ratably based on relative fair values of the components of the sale, consistent within the scope of Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 605 *Revenue Recognition*.

Under our standard terms and conditions of sale, title and risk of loss transfer to the customer at the time product is shipped to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. We defer estimated revenue associated with post-sale obligations that are not essential to the functionality of the delivered items, and recognize revenue in the future as the conditions for revenue recognition are met.

### ***Software***

We also market and sell software tools that enable our customers to capture and customize content using our printers, as well as reverse engineering and inspection software. The software does not require significant modification or customization. We apply the guidance in ASC 985-605, *Software-Revenue Recognition* in recognizing revenue when software is more than incidental to the product or service as a whole based on fair value using vendor-specific objective evidence. In general, this software is sold separately and is not part of a multiple-element arrangement. Revenue is recognized either upon delivery of the product or delivery of a key code which allows the customer to access the software. In instances where software access is provided for a trial period, revenue is not recognized until the customer has purchased the software at the expiration of the trial period. Post sale support is considered a separate element from the software and is deferred at the time of sale and subsequently amortized in future periods.

We also sell equipment with embedded software to our customers. The embedded software is not sold separately, it is not a significant focus of our marketing effort and we do not provide post-contract customer support specific to the software or incur significant costs that are within the scope of ASC 985. Additionally, the functionality that the software provides is marketed as part of the overall product. The software embedded in the equipment is incidental to the equipment as a whole such that ASC 985 is not applicable. Sales of these products are recognized in accordance with ASC 605.25, *Multiple-Element Arrangements*.



---

## **Table of Contents**

### *Services*

Printers include a warranty under which we provide maintenance for periods up to one year, as well as training, installation, and non-contract maintenance services. We defer this portion of the revenue from the related printer sale at the time of sale based on the relative fair value of those services. After the initial warranty period, we offer these customers optional maintenance contracts. Deferred maintenance revenue is recognized ratably, on a straight-line basis, over the period of the contract and we recognize the costs associated with these contracts as incurred. Revenue from training, installation and non-contract maintenance services is recognized at the time of performance.

On-demand printed parts sales are included within services revenue and revenue is recognized upon shipment or delivery of the parts, based on the terms of the sales arrangement.

### *Terms of sale*

Shipping and handling costs billed to customers for equipment sales and sales of print materials are included in product revenue in the consolidated statements of income and other comprehensive income. Costs incurred by us associated with shipping and handling are included in product cost of sales in the consolidated statements of income and other comprehensive income.

Credit is extended, and creditworthiness is determined, based on an evaluation of each customer's financial condition. New customers are generally required to complete a credit application and provide references and bank information to facilitate an analysis of creditworthiness. Customers with a favorable profile may receive credit terms that differ from our general credit terms. Creditworthiness is considered, among other things, in evaluating our relationship with customers with past due balances.

Our terms of sale generally require payment within 30 to 60 days after shipment of a product, although we also recognize that longer payment periods are customary in some countries where it transacts business. To reduce credit risk in connection with printer sales, we may, depending upon the circumstances, require significant deposits prior to shipment and may retain a security interest in a system sold until fully paid. In some circumstances, we may require payment in full for our products prior to shipment and may require international customers to furnish letters of credit. For maintenance services, we either bill customers on a time-and-materials basis or sell customers service agreements that are recorded as deferred revenue and provide for payment in advance on either an annual or other periodic basis.

### *Allowance for doubtful accounts*

In evaluating the collectability of our accounts receivable, we assess a number of factors, including a specific client's ability to meet its financial obligations to us, such as whether a customer declares bankruptcy. Other factors include the length of time the receivables are past due and historical collection experience. Based on these assessments, we record a reserve for specific customers as well as a general reserve based on our historical experience for bad debts. If circumstances related to specific customers change, or economic conditions deteriorate such that our past collection experience is no longer relevant, our estimate of the recoverability of our accounts receivable could be further reduced from the levels provided for in the Consolidated Financial Statements.

Our estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved.

First, we evaluate specific accounts where we have information that the customer may have an inability to meet their financial obligations (for example, aging over 90 days past due or bankruptcy). In these cases, we use our judgment, based on available facts and circumstances, and record a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are re-evaluated and adjusted as additional information is received that impacts the amount reserved.

Second, a general reserve is established for all customers based on historical collection and write-off experience.

## **Table of Contents**

Our estimate of the allowance for doubtful accounts for financing receivables is determined by evaluating specific accounts for which the borrower is past due more than 90 days, or for which it has information that the borrower may be unable to meet its financial obligations (for example, bankruptcy). In these cases, we use judgment, based on the available facts and circumstances, and record a specific reserve for that borrower against amounts due to reduce the outstanding receivable balance to the amount that is expected to be collected. If there are any specific reserves, they are re-evaluated and adjusted as additional information is received that impacts the amount reserved.

We also provide an allowance account for returns and discounts. This allowance is evaluated on a specific account basis. In addition, we provide a general reserve for all customers that have not been specifically identified based on historical experience.

Our bad debt expense increased to \$3.0 million in 2012 from \$1.7 million in 2011 and \$0.1 million in 2010. The higher expense in 2012 was due to higher receivables related to increased revenue.

Our allowance for doubtful accounts increased to \$4.3 million, or 5.4% of outstanding accounts receivable, at December 31, 2012 from \$3.0 million, or 5.9% of outstanding accounts receivable, at December 31, 2011. Our percent of accounts receivable over 90 days past due decreased to 6.4% in 2012 from 11.9% in 2011; however, due to increased revenue the total dollar amount of receivables over 90 days past due increased. We believe that our allowance for doubtful accounts is a critical accounting estimate because it is susceptible to change and dependent upon events that may or may not occur and because the impact of recognizing additional allowances for doubtful accounts may be material to the assets reported on our balance sheet and in our results of operations.

### ***Income taxes***

We and our domestic subsidiaries file a consolidated U.S. federal income tax return. Our non-U.S. subsidiaries file income tax returns in their respective local jurisdictions. We provide for income taxes on those portions of our foreign subsidiaries' accumulated earnings that we believe are not reinvested indefinitely in their businesses.

We account for income taxes under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax benefit carryforwards. Deferred income tax liabilities and assets at the end of each period are determined using enacted tax rates.

We record deferred income tax assets arising from temporary differences between recorded net income and taxable net income when and if we believe that future earnings will be sufficient to realize the tax benefit. We provide a valuation allowance for those jurisdictions and on those deferred tax assets where the expiration date of tax benefit carryforwards or the projected taxable earnings indicate that realization is not likely.

Under the provisions of ASC 740, Income Taxes, a valuation allowance is required to be established or maintained when, based on currently available information and other factors, it is more likely than not that all or a portion of a deferred income tax asset will not be realized. ASC 740 provides that an important factor in determining whether a deferred income tax asset will be realized is whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred income tax asset.

We believe that our estimate of deferred income tax assets and our maintenance of a valuation allowance against such assets are critical accounting estimates because they are subject to, among other things, an estimate of future taxable income in the U.S. and in other non-U.S. tax jurisdictions, which are susceptible to change and dependent upon events that may or may not occur, and because the impact of our valuation allowance may be material to the assets reported on our balance sheet and in our results of operations.

The determination of our income tax provision is complex because we have operations in numerous tax jurisdictions outside the U.S. that are subject to certain risks that ordinarily would not be expected in the U.S. Tax regimes in certain jurisdictions are subject to significant changes, which may be applied on a retroactive basis. If this were to occur, our tax expense could be materially different than the amounts reported.

## **Table of Contents**

We periodically estimate the probable tax obligations using historical experience in tax jurisdictions and our informed judgment. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations. Income tax expense is adjusted in the period in which these events occur, and these adjustments are included in our Consolidated Statements of Income and Other Comprehensive Income. If such changes take place, there is a risk that our effective tax rate may increase or decrease in any period.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value, cost being determined predominantly on the first-in, first-out method. Reserves for inventories are provided based on historical experience and current product demand. Our inventory reserve was \$3.5 million at December 31, 2012, compared with \$2.5 million at December 31, 2011. We recorded inventory reserves of \$1.0 million at the acquisition date for Z Corp and Vidar. We evaluate the adequacy of these reserves quarterly. Our determination of the allowance for inventory reserves is subject to change because it is based on management's current estimates of required reserves and potential adjustments.

We believe that the allowance for inventory obsolescence is a critical accounting estimate because it is susceptible to change and dependent upon events that may or may not occur and because the impact of recognizing additional obsolescence reserves may be material to the assets reported on our balance sheet and in our results of operations.

### ***Goodwill and other intangible and long-lived assets***

We evaluate long-lived assets other than goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

The annual impairment testing required by ASC 350, Intangibles—Goodwill and Other, requires us to use our judgment and could require us to write down the carrying value of our goodwill and other intangible assets in future periods. As required by ASC 350, we have allocated goodwill to identifiable geographic reporting units, which are tested for impairment using a two-step process detailed in that statement. See Notes 6 and 7 to the Consolidated Financial Statements. The first step requires comparing the fair value of each reporting unit with our carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is not required to be performed and no impairment charge is required to be recorded. If that fair value does not exceed the carrying amount, we must perform the second step, which requires an allocation of the fair value of the reporting unit to all assets and liabilities of that unit as if the reporting unit had been acquired in a purchase business combination and the fair value of the reporting unit was the purchase price. The goodwill resulting from that purchase price allocation is then compared to the carrying amount with any excess recorded as an impairment charge.

Goodwill set forth on the Consolidated Balance Sheet as of December 31, 2012 arose from acquisitions carried out in 2012, 2011, 2010 and 2009 and in years prior to 2007. Goodwill arising from acquisitions prior to 2007 was allocated to geographic reporting units based on the percentage of SLS printers then installed by geographic area. Goodwill arising from acquisitions since 2009 was allocated to geographic reporting units based on geographic dispersion of the acquired companies' sales or capitalization at the time of their acquisition.

## **Table of Contents**

Pursuant to the requirements of ASC 350, we are required to perform a valuation of each of our three geographic reporting units annually, or upon significant changes in our business environment. We conducted our annual impairment analysis in the fourth quarter of 2012. To determine the fair value of each reporting unit we utilized discounted cash flows, using five years of projected unleveraged free cash flows and terminal EBITDA earnings multiples. The discount rates used for the analysis reflected a weighted average cost of capital based on industry and capital structure adjusted for equity risk premiums and size risk premiums based on market capitalization. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions and may differ from actual future cash flows. We also considered the current trading multiples of comparable publicly-traded companies and the historical pricing multiples for comparable merger and acquisition transactions that have occurred in the industry. Under each fair value measurement methodology considered, the fair value of each reporting unit exceeded its carrying value; accordingly, no goodwill impairment adjustments were recorded on our Consolidated Balance Sheet.

The control premium that a third party would be willing to pay to obtain a controlling interest in 3D Systems Corporation was considered when determining fair value. In addition, factors such as the performance of competitors were also considered. Management concluded that there was a reasonable basis for the excess of the estimated fair value of the geographic reporting units over its market capitalization.

The estimated fair value of the three geographic reporting units incorporated judgment and the use of estimates by management. Potential factors requiring assessment include a further or sustained decline in our stock price, variance in results of operations from projections, and additional acquisition transactions in the industry that reflect a lower control premium. Any of these factors may cause us to re-evaluate goodwill during any quarter throughout the year. If an impairment charge were to be taken for goodwill it would be a non-cash charge and would not impact our cash position or cash flows; however such a charge could have a material impact to equity and the Consolidated Statement of Income and Comprehensive Income.

There was no goodwill impairment for the years ended December 31, 2012, 2011 or 2010.

We will evaluate the fair value of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment* if events transpire to indicate potential impairment. No impairment loss was recorded for the periods presented.

Determining the fair value of a reporting unit, intangible asset or a long-lived asset is judgmental and involves the use of significant estimates and assumptions. Management bases its fair value estimates on assumptions that it believes are reasonable but are uncertain and subject to changes in market conditions.

### ***Stock-based compensation***

ASC 718, *Compensation - Stock Compensation*, requires the recognition of the fair value of stock-based compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. See Note 14 to the Consolidated Financial Statements.

### ***Contingencies***

We account for contingencies in accordance with ASC 450, *Contingencies*. ASC 450 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal matters requires us to use our judgment.

### ***Non-GAAP Measures***

In addition to our results determined in accordance with U.S. GAAP, management uses certain non-GAAP financial measures, which adjust net income and earnings per share, in assessing our operating performance. Management believes these non-GAAP financial measures of adjusted net income and adjusted earnings per share serve as useful measures in evaluating the overall performance of our business.

## **Table of Contents**

Management uses these non-GAAP financial measures to supplement our Consolidated Financial Statements presented on a GAAP basis to facilitate a better understanding of the impact that several significant, strategic acquisitions had on our ongoing financial results.

These non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies and they are subject to inherent limitations as they reflect the exercise of judgments by our management about which costs, expenses and other items are excluded from our GAAP financial statements in determining our non-GAAP financial measures. We compensate for these limitations by analyzing current and expected future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP measures as required in our public disclosures and reconciliations of our non-GAAP financial measures to our GAAP financial statements. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial performance or liquidity measures prepared in accordance with GAAP. The non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

As discussed in detail above, we report non-GAAP measures which adjust both net income and earnings per share by excluding the impact of acquisition and severance expenses, intangible amortization, non-cash interest expense, non-cash stock-based compensation and releases of valuation allowances on deferred tax assets. We provide the required reconciliation of GAAP net income and earnings per share to non-GAAP adjusted net income and adjusted earnings per share. See *Other Financial Information* above.

### **Recent Accounting Pronouncements**

See Note 2 to our Consolidated Financial Statements included in this report for recently issued accounting standards, including the expected dates of adoption and expected impact to our Consolidated Financial Statements upon adoption.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from fluctuations in interest rates, foreign currency exchange rates, and commodity prices, which may adversely affect our results of operations and financial condition. We seek to minimize these risks through regular operating and financing activities and, when we consider it to be appropriate, through the use of derivative financial instruments. We do not purchase, hold or sell derivative financial instruments for trading or speculative purposes.

#### ***Interest rates***

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. We seek to minimize the risk to our cash and cash equivalents by investing cash in excess of our operating needs in short-term, high-quality instruments issued by highly creditworthy financial institutions, corporations or governments. With the amount of cash and cash equivalents that we maintained at December 31, 2012, a hypothetical interest rate change of 1 percentage point, or 100 basis points, would have a \$1.6 million effect on our financial position and results of operations.

From time to time, we may use derivative financial instruments, including interest rate swaps, collars or options, to manage our exposure to fluctuations in interest rates. At December 31, 2012, we had no such financial instruments outstanding.

## **Table of Contents**

### ***Foreign exchange rates***

We transact business globally and are subject to risks associated with fluctuating foreign exchange rates. Approximately 45% of our consolidated revenue is derived from sales outside of the U.S. See *Business Global Operations* above. This revenue is generated primarily from the operations of our foreign sales subsidiaries in their respective countries and surrounding geographic areas and the operations of our research and production subsidiary in Switzerland, and is denominated in each subsidiary's local functional currency although certain sales are denominated in other currencies, including U.S. Dollars, Euros and Japanese Yen, rather than the local functional currency. These subsidiaries incur most of their expenses (other than intercompany expenses) in their local functional currencies. These currencies include the Euro, Australian Dollar, British Pound, Swiss Franc Korean Won and Japanese Yen.

The geographic areas outside the U.S. in which we operate are generally not considered to be highly inflationary. Nonetheless, these foreign operations are sensitive to fluctuations in currency exchange rates arising from, among other things, certain intercompany transactions that are generally denominated in U.S. Dollars rather than in their respective functional currencies. Our operating results, as well as our assets and liabilities, are also subject to the effects of foreign currency translation when the operating results, assets and liabilities of our foreign subsidiaries are translated into U.S. Dollars in our Consolidated Financial Statements.

We and our subsidiaries 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 and our subsidiaries 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 U.S. balance sheet and those of our subsidiaries in order to reduce these risks. We also, when we consider it 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 Consolidated Statements of Income and Comprehensive Income.

As noted above, we may use derivative financial instruments, including foreign exchange forward contracts and foreign currency options, to fix or limit our exposure to currency fluctuations. We do not hedge our foreign currency exposures in a manner that would entirely eliminate the effects of changes in foreign exchange rates on our consolidated net income or loss.

At December 31, 2012, a hypothetical change of 10% in foreign currency exchange rates would cause approximately a \$15.7 million change in revenue in our Consolidated Statement of Income and Comprehensive Income assuming all other variables were held constant.

### ***Commodity prices***

We use various commodity raw materials and energy products in conjunction with our printer assembly and print materials blending processes. Generally, we acquire such components at market prices and do not use financial instruments to hedge commodity prices. As a result, we are exposed to market risks related to changes in commodity prices of these components. At December 31, 2012, a hypothetical 10% change in commodity prices for raw materials would cause approximately a \$4.2 million change to cost of sales in our Consolidated Statement of Income and Comprehensive Income.

## **Item 8. Financial Statements and Supplementary Data**

Our Consolidated Financial Statements set forth below on pages F-1 through F-56 are incorporated herein by reference.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.



## **Table of Contents**

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are controls and procedures that are 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 our management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures.

As of December 31, 2012, 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 9A, management has concluded that our disclosure controls and procedures were effective as of December 31, 2012 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.

#### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting is supported by written policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that our receipts and expenditures are being made and recorded only in accordance with authorizations of our management and provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

In connection with the preparation of this Form 10-K, with the participation of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2012.

## **Table of Contents**

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

BDO USA, LLP, the independent registered public accounting firm who audited our Consolidated Financial Statements included in this Form 10-K, has issued a report on our internal control over financial reporting, which is included in Item 8 of this Form 10-K.

### **Changes in Internal Controls over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended December 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required in response to this Item will be set forth in our Proxy Statement for our 2013 Annual Meeting of Stockholders under the captions Election of Directors, Corporate Governance Matters, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Matters Code of Conduct and Code of Ethics, Corporate Governance Matters Corporate Governance and Nominating Committee, and Corporate Governance Matters Audit Committee. Such information is incorporated herein by reference.

### **Item 11. Executive Compensation**

The information in response to this Item will be set forth in our Proxy Statement for our 2013 Annual Meeting of Stockholders under the captions Director Compensation, Executive Compensation, Corporate Governance Matters Compensation Committee, and Executive Compensation Compensation Committee Report. Such information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Except as set forth below, the information required in response to this Item will be set forth in our Proxy Statement for our 2013 Annual Meeting of Stockholders under the caption Security Ownership of Certain Beneficial Owners and Management. Such information is incorporated herein by reference.

### **Equity Compensation Plans**

The following table summarizes information about the equity securities authorized for issuance under our compensation plans as of December 31, 2012. For a description of these plans, please see Note 14 to the Consolidated Financial Statements.

**Table of Contents**

|                                                           | Number of securities<br>to be issued<br>upon<br>exercise of outstanding<br>stock options,<br>warrants and<br>rights | Weighted average<br>exercise price of<br>outstanding options,<br>warrants and<br>rights | Number of securities<br>remaining available for<br>future issuance<br>under<br>equity compensation<br>plans |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| <i>(Dollars in thousands)</i>                             |                                                                                                                     |                                                                                         |                                                                                                             |
| <b><u>Plan Category</u></b>                               |                                                                                                                     |                                                                                         |                                                                                                             |
| Equity compensation plans approved by<br>stockholders     |                                                                                                                     | \$                                                                                      | 1,667                                                                                                       |
| Equity compensation plans not approved by<br>stockholders |                                                                                                                     |                                                                                         |                                                                                                             |
| Total                                                     |                                                                                                                     | \$                                                                                      | 1,667                                                                                                       |

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required in response to this Item will be set forth in our Proxy Statement for our 2013 Annual Meeting of Stockholders under the captions Corporate Governance Matters Director Independence and Corporate Governance Matters Related Party Transaction Policies and Procedures. Such information is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information in response to this Item will be set forth in our Proxy Statement for our 2013 Annual Meeting of Stockholders under the caption Fees of Independent Registered Public Accounting Firm. Such information is incorporated herein by reference.

**Table of Contents**

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

- |        |                                                                                                                                                                                                                                                                                            |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a)(3) | <b>Exhibits</b>                                                                                                                                                                                                                                                                            |
|        | The following exhibits are included as part of this filing and incorporated herein by this reference:                                                                                                                                                                                      |
| 2.1    | Acquisition Agreement, dated October 12, 2010, by and among 3D Systems Corporation, 3D Systems Italia, Mr. Francesco Giorgio Buson and Glas S.S. (Incorporated by reference to Exhibit 2.1 to Form 8-K filed on October 12, 2010.)                                                         |
| 2.2    | Asset Purchase Agreement, dated as of November 1, 2011, by an among 3D Systems Corporation, 3D Systems SA, Huntsman Advanced Materials Americas LLC, and Huntsman Advanced Materials (Switzerland) GmbH. (Incorporated by reference to Exhibit 2.1 to Form 8-K filed on November 1, 2011.) |
| 2.3    | Stock Purchase Agreement, dated November 21, 2011, by and among 3D Systems Corporation, 3D Systems, Inc., Contex Group A/S, and Ratos AB. (Incorporated by reference to Exhibit 2.1 to Form 8-K filed on November 22, 2011.)                                                               |
| 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 by 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 June 9, 2006. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on June 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 June 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 June 30, 2005, filed on August 1, 2005.)    |
| 3.9    | Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on October 7, 2011. (Incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 7, 2011.)                                                                                |

## **Table of Contents**

- 3.10 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.)
- 3.11 Certificate of Elimination of Series A Preferred Stock filed with the Secretary of State of Delaware on November 14, 2011. (Incorporated by reference to Exhibit 3.1 to Form 8-K filed on November 15, 2011.)
- 3.12 Amended and Restated By-Laws. (Incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K, filed on December 1, 2006.)
- 4.1\* Amended and Restated 2004 Incentive Stock Plan of 3D Systems Corporation (Incorporated by reference to Exhibit 4.1 to the Registrant's Amendment No.1 to Registration Statement on Form S-8, filed May 20, 2009.)
- 4.2\* Form of Restricted Stock Purchase Agreement for Employees. (Incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-8, filed on May 19, 2004.)
- 4.3\* Form of Restricted Stock Purchase Agreement for Officers. (Incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8, filed on May 19, 2004.)
- 4.4\* Restricted Stock Plan for Non-Employee Directors of 3D Systems Corporation. (Incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8, filed on May 19, 2004.)
- 4.5\* Amendment No. 1 to Restricted Stock Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, filed on August 1, 2005.)
- 4.6\* Form of Restricted Stock Purchase Agreement for Non-Employee Directors. (Incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-8, filed on May 19, 2004.)
- 4.7 Indenture, dated as of November 22, 2011, by and between 3D Systems Corporation and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 22, 2011.)
- 10.1 Patent License Agreement dated December 16, 1998 by and between 3D Systems, Inc., NTT Data CMET, Inc. and NTT Data Corporation. (Incorporated by reference to Exhibit 10.56 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, filed on March 31, 1999.)
- 10.2 Lease Agreement dated February 8, 2006 between the Registrant and KDC-Carolina Investments 3, LP. (Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K, filed on February 10, 2006.)
- 10.3 First Amendment to Lease Agreement dated August 7, 2006 between the Registrant and KDC-Carolina Investments 3, LP. (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K, filed on August 14, 2006.)
- 10.4 Second Amendment to Lease Agreement effective as of October 6, 2006 to Lease Agreement dated February 8, 2006 between 3D Systems Corporation and KDC-Carolina Investments 3, LP. (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K, filed on October 10, 2006.)

## **Table of Contents**

|        |                                                                                                                                                                                                                                                                                                       |
|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.5   | Third Amendment to Lease Agreement effective as of December 18, 2006 to Lease Agreement dated February 8, 2006 between 3D Systems Corporation and KDC-Carolina Investments 3, LP. (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K, filed on December 20, 2006.) |
| 10.6   | Fourth Amendment to Lease Agreement effective as of February 26, 2007 to Lease Agreement dated February 8, 2006 between 3D Systems Corporation and KDC-Carolina Investments 3, LP. (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K, filed on March 1, 2007.)    |
| 10.7   | Fifth Amendment to Lease Agreement effective as of March 17, 2011 to Lease Agreement dated February 8, 2006 between 3D Systems Corporation and KDC-Carolina Investments 3, LP. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 18, 2011.)                                       |
| 10.8*  | Employment Letter Agreement, effective September 19, 2003, by and between Registrant and Abraham N. Reichental. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed on September 22, 2003.)                                                                  |
| 10.9*  | Agreement, dated December 17, 2003, by and between Registrant and Abraham N. Reichental. (Incorporated by reference to Exhibit 10.43 to Registrant's Amendment No. 1 to Registration Statement on Form S-1, filed on January 21, 2004.)                                                               |
| 10.10* | First Amendment to Employment Agreement, dated July 24, 2007, by and between Registrant and Abraham N. Reichental. (Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007, filed on August 6, 2007.)                   |
| 10.11* | Charles W. Hull consulting arrangement (Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on July 29, 2010.)                                                                                                                                          |
| 10.12* | Kevin P. McAlea severance arrangement (Incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on July 29, 2010.)                                                                                                                                           |
| 14.1   | Code of Conduct, as amended effective as of November 30, 2006 (Incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, filed on December 1, 2006.)                                                                                                                  |
| 14.2   | 3D Systems Corporation Code of Ethics for Senior Financial Executives and Directors. (Incorporated by reference to Exhibit 14.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.)                                                        |
| 21.1   | Subsidiaries of Registrant.                                                                                                                                                                                                                                                                           |
| 23.1   | Consent of Independent Registered Public Accounting Firm dated February 25, 2013.                                                                                                                                                                                                                     |
| 31.1   | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated February 25, 2013.                                                                                                                                                                      |
| 31.2   | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated February 25, 2013.                                                                                                                                                                      |
| 32.1   | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 25, 2013.                                                                                                                                                                      |
| 32.2   | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 25, 2013.                                                                                                                                                                      |

\* Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

3D Systems Corporation

By: /s/ ABRAHAM N. REICHENTAL  
Abraham N. Reichental  
President and Chief Executive Officer

Date: February 25, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of registrant and in the capacities and on the dates indicated.

| <b>Signature</b>             | <b>Title</b>                                                                                   | <b>Date</b>       |
|------------------------------|------------------------------------------------------------------------------------------------|-------------------|
| /s/ ABRAHAM N. REICHENTAL    | Chief Executive Officer, President and Director                                                | February 25, 2013 |
| Abraham N. Reichental        | (Principal Executive Officer)                                                                  |                   |
| /s/ DAMON J. GREGOIRE        | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | February 25, 2013 |
| Damon J. Gregoire            |                                                                                                |                   |
| /s/ CHARLES W. HULL          | Executive Vice President, Chief Technology                                                     | February 25, 2013 |
| Charles W. Hull              | Officer and Director                                                                           |                   |
| /s/ G. WALTER LOEWENBAUM, II | Chairman of the Board of Directors                                                             | February 25, 2013 |
| G. Walter Loewenbaum, II     |                                                                                                |                   |
| /s/ JIM D. KEVER             | Director                                                                                       | February 25, 2013 |
| Jim D. Kever                 |                                                                                                |                   |
| /s/ KEVIN S. MOORE           | Director                                                                                       | February 25, 2013 |
| Kevin S. Moore               |                                                                                                |                   |
| /s/ DANIEL S. VAN RIPER      | Director                                                                                       | February 25, 2013 |
| Daniel S. Van Riper          |                                                                                                |                   |
| /s/ WILLIAM E. CURRAN        | Director                                                                                       | February 25, 2013 |
| William E. Curran            |                                                                                                |                   |

Edgar Filing: 3D SYSTEMS CORP - Form 10-K

/s/ KAREN E. WELKE

Director

February 25, 2013

Karen E. Welke



**Table of Contents**

**3D Systems Corporation**

**Index to Consolidated Financial Statements**

**and Consolidated Financial Statement Schedule**

**Consolidated Financial Statements**

Report of Independent Registered Public Accounting Firm

F-2

Report of Independent Registered Public Accounting Firm

F-3

Consolidated Balance Sheets as of December 31, 2012 and 2011

F-4

Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 2012, 2011, and 2010

F-5

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010

F-6

Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011, and 2010

F-7

Notes to Consolidated Financial Statements for the Years Ended December 31, 2012, 2011 and 2010

F-8

**Consolidated Financial Statement Schedule**

Report of Independent Registered Public Accounting Firm

F-46

Schedule II Valuation and Qualifying Accounts for the Years Ended December 31, 2012, 2011 and 2010

F-47

F-1

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors

3D Systems Corporation

Rock Hill, South Carolina

We have audited 3D Systems Corporation and its subsidiaries (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 3D Systems Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, 3D Systems Corporation did maintain, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of 3D Systems Corporation and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

Charlotte, North Carolina

February 25, 2013

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of

3D Systems Corporation

Rock Hill, South Carolina

We have audited the accompanying consolidated balance sheets of 3D Systems Corporation and its subsidiaries (the Company) as of December 31, 2012 and 2011 and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of 3D Systems Corporation and its subsidiaries as of December 31, 2012 and 2011 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Criteria) and our report dated February 25, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

BDO USA, LLP

Charlotte, North Carolina

February 25, 2013

**Table of Contents****3D Systems Corporation****Consolidated Balance Sheets****As of December 31, 2012 and 2011**

| <i>(in thousands, except par value)</i>                                                            | <b>2012</b> | <b>2011</b> |
|----------------------------------------------------------------------------------------------------|-------------|-------------|
| <b>ASSETS</b>                                                                                      |             |             |
| Current assets:                                                                                    |             |             |
| Cash and cash equivalents                                                                          | \$ 155,859  | \$ 179,120  |
| Accounts receivable, net of allowance for doubtful accounts of \$4,317 (2012) and \$3,019 (2011)   | 79,869      | 51,195      |
| Inventories, net of reserves of \$3,534 (2012) and \$2,542 (2011)                                  | 41,820      | 25,283      |
| Prepaid expenses and other current assets                                                          | 4,010       | 2,241       |
| Current deferred income tax asset                                                                  | 5,867       | 3,528       |
| Restricted cash                                                                                    | 13          | 13          |
| Total current assets                                                                               | 287,438     | 261,380     |
| Property and equipment, net                                                                        | 34,353      | 29,594      |
| Intangible assets, net                                                                             | 108,377     | 54,040      |
| Goodwill                                                                                           | 240,314     | 107,651     |
| Long term deferred income tax asset                                                                | 107         | 3,195       |
| Other assets, net                                                                                  | 6,853       | 7,114       |
| Total assets                                                                                       | \$ 677,442  | \$ 462,974  |
| <b>LIABILITIES AND EQUITY</b>                                                                      |             |             |
| Current liabilities:                                                                               |             |             |
| Current portion of capitalized lease obligations                                                   | \$ 174      | \$ 163      |
| Accounts payable                                                                                   | 32,095      | 25,911      |
| Accrued and other liabilities                                                                      | 24,789      | 16,816      |
| Customer deposits                                                                                  | 2,786       | 3,398       |
| Deferred revenue                                                                                   | 15,309      | 11,260      |
| Total current liabilities                                                                          | 75,153      | 57,548      |
| Long term portion of capitalized lease obligations                                                 | 7,443       | 7,609       |
| Convertible senior notes, net                                                                      | 80,531      | 131,107     |
| Deferred income tax liability                                                                      | 23,142      | 3,656       |
| Other liabilities                                                                                  | 10,840      | 8,266       |
| Total liabilities                                                                                  | 197,109     | 208,186     |
| <b>Commitments and Contingencies</b>                                                               |             |             |
| Stockholders' equity:                                                                              |             |             |
| Preferred stock, authorized 5,000 shares, none issued                                              |             |             |
| Common stock, \$0.001 par value, authorized 120,000 shares; 59,855 (2012) and 50,975 (2011) issued | 60          | 51          |
| Additional paid-in capital                                                                         | 460,237     | 274,542     |
| Treasury stock, at cost: 355 (2012) and 324 shares (2011)                                          | (240)       | (214)       |
| Accumulated earnings (deficit)                                                                     | 16,410      | (22,531)    |
| Accumulated other comprehensive income                                                             | 3,866       | 2,940       |
| Total stockholders' equity                                                                         | 480,333     | 254,788     |
| Total liabilities and stockholders' equity                                                         | \$ 677,442  | \$ 462,974  |

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

See accompanying notes to consolidated financial statements.

F-4

**Table of Contents****3D Systems Corporation****Consolidated Statements of Income and Comprehensive Income****Years Ended December 31, 2012, 2011 and 2010**

| <i>(in thousands, except per share amounts)</i> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|-------------------------------------------------|-------------|-------------|-------------|
| Revenue:                                        |             |             |             |
| Products                                        | \$ 229,980  | \$ 137,306  | \$ 113,117  |
| Services                                        | 123,653     | 93,117      | 46,751      |
| Total revenue                                   | 353,633     | 230,423     | 159,868     |
| Cost of sales:                                  |             |             |             |
| Products                                        | 105,286     | 66,589      | 56,041      |
| Services                                        | 67,151      | 54,806      | 29,851      |
| Total cost of sales                             | 172,437     | 121,395     | 85,892      |
| Gross profit                                    | 181,196     | 109,028     | 73,976      |
| Operating expenses:                             |             |             |             |
| Selling, general and administrative             | 97,422      | 59,795      | 42,331      |
| Research and development                        | 23,203      | 14,331      | 10,725      |
| Total operating expenses                        | 120,625     | 74,126      | 53,056      |
| Income from operations                          | 60,571      | 34,902      | 20,920      |
| Interest and other expense, net                 | 17,292      | 2,456       | 1,181       |
| Income before income taxes                      | 43,279      | 32,446      | 19,739      |
| Provision for (benefit of) income taxes         | 4,338       | (2,974)     | 173         |
| Net income                                      | \$ 38,941   | \$ 35,420   | \$ 19,566   |
| Other comprehensive income                      |             |             |             |
| Unrealized (loss) on pension obligation         | \$ (714)    | \$ (275)    | \$ (65)     |
| Foreign currency translation gain (loss)        | 1,640       | (1,743)     | 406         |
| Comprehensive income                            | \$ 39,867   | \$ 33,402   | \$ 19,907   |
| Net income per share basic                      | \$ 0.72     | \$ 0.71     | \$ 0.42     |
| Net income per share diluted                    | \$ 0.71     | \$ 0.70     | \$ 0.42     |

See accompanying notes to consolidated financial statements.

## Table of Contents

### 3D Systems Corporation

#### Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2012, 2011 and 2010

|                                                      | Common Stock |           |                            | Treasury Stock |          | Accumulated        | Accumulated                | Total 3D                     | Equity                                   | Total      |
|------------------------------------------------------|--------------|-----------|----------------------------|----------------|----------|--------------------|----------------------------|------------------------------|------------------------------------------|------------|
|                                                      | Shares       | Par Value | Additional Paid In Capital | Shares         | Amount   | Earnings (Deficit) | Other Comprehensive Income | Systems Stockholders' Equity | Attributable to Non-controlling Interest | Equity     |
| <i>(In thousands, except par value)</i>              |              | \$0.001   |                            |                |          |                    |                            |                              |                                          |            |
| 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                            | 79           | (a)       | 1,128                      |                |          |                    |                            | 1,128                        |                                          | 1,128      |
| Issuance (repurchase) of restricted stock, net       | 160          | (a)       | 141                        | 60             | (55)     |                    |                            | 86                           |                                          | 86         |
| Issuance of stock for acquisitions                   | 461          | (a)       | 5,895                      |                |          |                    |                            | 5,895                        |                                          | 5,895      |
| Stock-based compensation expense                     |              | (a)       | 1,406                      |                |          |                    |                            | 1,406                        |                                          | 1,406      |
| Net income                                           |              |           |                            |                |          | 19,566             |                            | 19,566                       |                                          | 19,566     |
| Acquisition of non-controlling interest              |              |           |                            |                |          |                    |                            |                              | (73)                                     | (73)       |
| Gain (loss) on pension plan unrealized               |              |           |                            |                |          |                    | (65)                       | (65)                         |                                          | (65)       |
| Foreign currency translation adjustment              |              |           |                            |                |          |                    | 406                        | 406                          |                                          | 406        |
| Balance at December 31, 2010                         | 23,474       | \$ 23     | \$ 186,252                 | 134            | \$ (189) | \$ (57,925)        | \$ 4,958                   | \$ 133,119                   | \$                                       | \$ 133,119 |
| Exercise of stock options                            | 306          | (a)       | 2,536                      |                |          |                    |                            | 2,536                        |                                          | 2,536      |
| Issuance (repurchase) of restricted stock, net       | 253          | (a)       | 253                        | 190            | (25)     |                    |                            | 228                          |                                          | 228        |
| Issuance of common stock                             | 1,495        | 2         | 62,052                     |                |          |                    |                            | 62,054                       |                                          | 62,054     |
| Issuance of stock for acquisitions                   | 110          | (a)       | 3,042                      |                |          |                    |                            | 3,042                        |                                          | 3,042      |
| Common stock dividend                                | 25,329       | 26        |                            |                |          | (26)               |                            |                              |                                          |            |
| Issuance of stock for 5.50% senior convertible notes |              |           | 17,770                     |                |          |                    |                            | 17,770                       |                                          | 17,770     |
| Stock-based compensation expense                     | 8            | (a)       | 2,637                      |                |          |                    |                            | 2,637                        |                                          | 2,637      |
| Net income                                           |              |           |                            |                |          | 35,420             |                            | 35,420                       |                                          | 35,420     |
| Gain (loss) on pension plan unrealized               |              |           |                            |                |          |                    | (275)                      | (275)                        |                                          | (275)      |
| Foreign currency translation adjustment              |              |           |                            |                |          |                    | (1,743)                    | (1,743)                      |                                          | (1,743)    |
| Balance at December 31, 2011                         | 50,975       | \$ 51     | \$ 274,542                 | 324            | \$ (214) | \$ (22,531)        | \$ 2,940                   | \$ 254,788                   | \$                                       | \$ 254,788 |
| Exercise of stock options                            | 1,055        | 1         | 5,417                      |                |          |                    |                            | 5,418                        |                                          | 5,418      |
| Issuance (repurchase) of restricted stock, net       | 535          | 1         | 524                        | 31             | (26)     |                    |                            | 499                          |                                          | 499        |
| Issuance of common stock                             | 4,151        | 4         | 106,885                    |                |          |                    |                            | 106,889                      |                                          | 106,889    |
| Issuance of stock for acquisitions                   | 294          | (a)       | 7,672                      |                |          |                    |                            | 7,672                        |                                          | 7,672      |
| Issuance of stock for 5.50% senior convertible notes | 2,845        | 3         | 60,079                     |                |          |                    |                            | 60,082                       |                                          | 60,082     |
| Stock-based compensation expense                     |              |           | 5,118                      |                |          |                    |                            | 5,118                        |                                          | 5,118      |
| Net income                                           |              |           |                            |                |          | 38,941             |                            | 38,941                       |                                          | 38,941     |
| Gain (loss) on pension plan unrealized               |              |           |                            |                |          |                    | (714)                      | (714)                        |                                          | (714)      |
| Foreign currency translation adjustment              |              |           |                            |                |          |                    | 1,640                      | 1,640                        |                                          | 1,640      |
| Balance at December 31, 2012                         | 59,855       | \$ 60     | \$ 460,237                 | 355            | \$ (240) | \$ 16,410          | \$ 3,866                   | \$ 480,333                   | \$                                       | \$ 480,333 |

(a) Amounts not shown due to rounding.

Accumulated other comprehensive income of \$3,866 consists of a cumulative unrealized loss on pension plan of \$908 and foreign currency translation gain of \$4,744.

See accompanying notes to consolidated financial statements.

F-6



**Table of Contents****3D Systems Corporation****Consolidated Statements of Cash Flows****Years Ended December 31, 2012, 2011 and 2010**

| <i>(in thousands)</i>                                                             | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|-----------------------------------------------------------------------------------|-------------|-------------|-------------|
| Cash flows from operating activities:                                             |             |             |             |
| Net income                                                                        | \$ 38,941   | \$ 35,420   | \$ 19,566   |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |             |             |
| Benefit of deferred income taxes                                                  | (661)       | (5,140)     | (1,235)     |
| Depreciation and amortization                                                     | 21,229      | 11,093      | 7,520       |
| Non-cash interest on convertible notes                                            | 3,876       | 409         |             |
| Provision for bad debts                                                           | 3,039       | 1,731       | 102         |
| Stock-based compensation                                                          | 5,118       | 2,637       | 1,406       |
| (Gain) loss on the disposition of property and equipment and investments          | (674)       | 256         | 91          |
| Loss on conversion of convertible debt                                            | 7,021       |             |             |
| Changes in operating accounts:                                                    |             |             |             |
| Accounts receivable                                                               | (19,246)    | (12,090)    | (7,456)     |
| Inventories                                                                       | (12,225)    | (2,608)     | (5,693)     |
| Prepaid expenses and other current assets                                         | (794)       | 45          | 1,366       |
| Accounts payable                                                                  | (238)       | (3,457)     | 10,433      |
| Accrued liabilities                                                               | 9,081       | 141         | 2,505       |
| Customer deposits                                                                 | (1,336)     | 857         | 1,677       |
| Deferred revenue                                                                  | 1,164       | 525         | 2,188       |
| Other operating assets and liabilities                                            | (1,251)     | (2,159)     | (626)       |
| Net cash provided by operating activities                                         | 53,044      | 27,660      | 31,844      |
| Cash flows from investing activities:                                             |             |             |             |
| Purchases of property and equipment                                               | (3,224)     | (2,870)     | (1,283)     |
| Proceeds from disposition of property and equipment and other assets              | 0           | 174         | 6           |
| Additions to license and patent costs                                             | (729)       | (336)       | (302)       |
| Cash paid for acquisitions, net of cash assumed                                   | (183,701)   | (92,677)    | (19,195)    |
| Net cash used in investing activities                                             | (187,654)   | (95,709)    | (20,774)    |
| Cash flows from financing activities:                                             |             |             |             |
| Proceeds from 5.50% convertible notes                                             |             | 148,960     |             |
| Convertible notes capitalized costs                                               |             | (3,594)     |             |
| Proceeds from issuance of common stock                                            | 106,889     | 62,054      |             |
| Proceeds from exercise of stock options and restricted stock, net                 | 4,400       | 2,764       | 1,214       |
| Repayment of capital lease obligations                                            | (163)       | (221)       | (216)       |
| Restricted cash                                                                   |             | 12          | 43          |
| Net cash provided by financing activities                                         | 111,126     | 209,975     | 1,041       |
| Effect of exchange rate changes on cash                                           | 223         | (155)       | 325         |
| Net (decrease) increase in cash and cash equivalents                              | (23,261)    | 141,771     | 12,436      |
| Cash and cash equivalents at the beginning of the period                          | 179,120     | 37,349      | 24,913      |

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

|                                                    |            |            |           |
|----------------------------------------------------|------------|------------|-----------|
| Cash and cash equivalents at the end of the period | \$ 155,859 | \$ 179,120 | \$ 37,349 |
|----------------------------------------------------|------------|------------|-----------|

See accompanying notes to consolidated financial statements.

F-7

## **Table of Contents**

### **Note 1 Basis of Presentation**

The consolidated financial statements include the accounts of 3D Systems Corporation and all majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company's annual reporting period is the calendar year.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). Certain prior period amounts have been reclassified to conform to the current year presentation.

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.

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

The Company's Board of Directors approved a two-for-one stock split, effected in the form of a 100% stock dividend, which was paid on May 18, 2011 to stockholders of record at the close of business on May 9, 2011. The Company's stockholders received one additional share of common stock for each share of common stock owned. This did not change the proportionate interest that a stockholder maintained in the Company. All share and per share amounts set forth in this report, including earnings per share and the weighted average number of shares outstanding for basic and diluted earnings per share, for each respective period have been adjusted to reflect the two-for-one stock split.

The Company has evaluated subsequent events from the date of the consolidated balance sheet through the date of the filing of this Form 10-K. During this period, the Company closed the acquisition of COWEB and signed a definitive agreement to acquire Geomagic, Inc. The Company also announced a 3-for-2 stock split, in the form of a stock dividend. Trading will begin on a split-adjusted basis on February 25, 2013. On a split adjusted basis 2012 weighted average shares for basic and diluted earnings per share would have been 89,797 shares and 90,804 shares, respectively, and earnings per shares, on a basic and diluted basis, would have been \$0.43. See Note 24 for a description of subsequent events.

### **Note 2 Significant Accounting Policies**

#### *Use of Estimates*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including, among others, those related to the allowance for doubtful accounts, income taxes, inventory reserves, goodwill, other intangible assets, contingencies and revenue recognition. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### *Revenue Recognition*

Net revenue is derived primarily from the sale of products and services. The following revenue recognition policies define the manner in which the Company accounts for sales transactions.

The Company recognizes revenue when persuasive evidence of a sales arrangement exists, delivery has occurred or services are rendered, the sales price or fee is fixed or determinable and collectability is reasonably assured. The Company sells its products through its direct sales force and through authorized resellers. The Company recognizes revenue on sales to resellers at the time of sale when the reseller has economic substance apart from Company, and the Company has completed its obligations related to the sale.

## **Table of Contents**

The Company enters into sales arrangements that may provide for multiple deliverables to a customer. Sales of printers may include ancillary equipment, print materials, a warranty on the equipment, training and installation. The Company identifies all goods and/or services that are to be delivered separately under a sales arrangement and allocates revenue to each deliverable based on either vendor-specific objective evidence ( VSOE ), or if VSOE is not determinable, then the Company uses best estimated selling price ( BESP ) of each deliverable. The objective of BESP is to determine the price at which the Company would transact a sale if the deliverable was sold regularly on a stand-alone basis. The Company considers multiple factors including, but not limited to, market conditions, geographies, competitive landscape, and entity-specific factors such as internal costs, gross margin objectives and pricing practices when estimating BESP. The Company also evaluates the impact of undelivered items on the functionality of delivered items for each sales transaction and, where appropriate, defers revenue on delivered items when that functionality has been affected. Functionality is determined to be met if the delivered products or services represent a separate earnings process.

### *Hardware*

In general, revenues are separated between printers and other products, print materials, training services, maintenance services and installation services. The allocated revenue for each deliverable is then recognized ratably based on relative fair values of the components of the sale, consistent within the scope of Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 605 *Revenue Recognition*.

Under the Company's standard terms and conditions of sale, title and risk of loss transfer to the customer at the time product is shipped to the customer and revenue is recognized accordingly, unless customer acceptance is uncertain or significant obligations remain. The Company defers the estimated revenue associated with post-sale obligations that are not essential to the functionality of the delivered items, and recognizes revenue in the future as the conditions for revenue recognition are met.

### *Software*

The Company also markets and sells software tools that enable our customers to capture and customize content using our printers, as well as reverse engineering and inspection software. The software does not require significant modification or customization. The Company applies the guidance in ASC 985-605, *Software-Revenue Recognition* in recognizing revenue when software is more than incidental to the product or service as a whole based on fair value using vendor-specific objective evidence. In general, this software is sold separately and is not part of a multiple-element arrangement. Revenue is recognized either upon delivery of the product or delivery of a key code which allows the customer to access the software. In instances where software access is provided for a trial period, revenue is not recognized until the customer has purchased the software at the expiration of the trial period. Post sale support is considered a separate element from the software and is deferred at the time of sale and subsequently amortized in future periods.

The Company also sells equipment with embedded software to its customers. The embedded software is not sold separately, it is not a significant focus of the marketing effort and the Company does not provide post-contract customer support specific to the software or incur significant costs that are within the scope of ASC 985. Additionally, the functionality that the software provides is marketed as part of the overall product. The software embedded in the equipment is incidental to the equipment as a whole such that ASC 985 is not applicable. Sales of these products are recognized in accordance with ASC 605.25, *Multiple-Element Arrangements*.

### *Services*

Printers include a warranty under which the Company provides maintenance for periods up to one year, as well as training, installation and non-contract maintenance services. The Company defers this portion of the revenue at the time of sale based on the relative fair value of these services. After the initial warranty period, the Company offers these customers optional maintenance contracts. Deferred maintenance revenue is recognized ratably, on a straight-line basis, over the period of the contract and the Company recognizes the costs associated with these contracts as incurred. Revenue from training, installation and non-contract maintenance services is recognized at the time of performance.

On-demand printed parts sales are included within services revenue and revenue is recognized upon shipment or delivery of the parts, based on the terms of the sales arrangement.

## **Table of Contents**

### *Terms of sale*

Shipping and handling costs billed to customers for equipment sales and sales of print materials are included in product revenue in the consolidated statements of income and other comprehensive income. Costs incurred by the Company associated with shipping and handling are included in product cost of sales in the consolidated statements of income and other comprehensive income.

Credit is extended, and creditworthiness is determined, based on an evaluation of each customer's financial condition. New customers are generally required to complete a credit application and provide references and bank information to facilitate an analysis of creditworthiness. Customers with a favorable profile may receive credit terms that differ from the Company's general credit terms. Creditworthiness is considered, among other things, in evaluating the Company's relationship with customers with past due balances.

The Company's terms of sale generally require payment within 30 to 60 days after shipment of a product, although the Company also recognizes that longer payment periods are customary in some countries where it transacts business. To reduce credit risk in connection with printer sales, the Company may, depending upon the circumstances, require significant deposits prior to shipment and may retain a security interest in a system sold until fully paid. In some circumstances, the Company may require payment in full for its products prior to shipment and may require international customers to furnish letters of credit. For maintenance services, the Company either bills customers on a time-and-materials basis or sells customers service agreements that are recorded as deferred revenue and provide for payment in advance on either an annual or other periodic basis.

### *Cash and Cash Equivalents*

Investments with original maturities of three months or less at the date of purchase are considered to be cash equivalents. The Company's policy is to invest cash in excess of short-term operating and debt-service requirements in such cash equivalents. These instruments are stated at cost, which approximates market value because of the short maturity of the instruments. The Company places its cash with high quality financial institutions and believes its risk of loss is limited; however, at times, account balances may exceed international and U.S. federally insured limits.

### *Allowance for Doubtful Accounts*

The Company's estimate of the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved.

First, the Company evaluates specific accounts for which it has information that the customer may be unable to meet its financial obligations (for example, bankruptcy). In these cases, the Company uses its judgment, based on the available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the outstanding receivable balance to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved.

Second, a reserve is established for all customers based on percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change (for example, the Company experiences higher-than-expected defaults or an unexpected adverse change in a customer's financial condition), estimates of the recoverability of amounts due to the Company could be reduced. Similarly, if the Company experiences lower-than-expected defaults or customer financial condition improves, estimates of the recoverability of amounts due the Company could be increased.

The Company also provides an allowance account for returns and discounts. This allowance is evaluated on a specific account basis. In addition, the Company provides a general reserve for returns from customers that have not been specifically identified based on historical experience.

The Company's estimate of the allowance for doubtful accounts for financing receivables is determined by evaluating specific accounts for which the borrower is past due more than 90 days, or for which it has information that the borrower may be unable to meet its financial obligations (for example, bankruptcy). In these cases, the Company uses its judgment, based on the available facts and circumstances, and records a specific reserve for that borrower against amounts due to reduce the outstanding receivable balance to the amount that is expected to be collected. If there are any specific reserves, they are reevaluated and adjusted as additional information is received that impacts the amount reserved.

## **Table of Contents**

### *Inventories*

Inventories are stated at the lower of cost or net realizable market value, cost being determined using the first-in, first-out method. Reserves for slow-moving and obsolete inventories are provided based on historical experience and current product demand. The Company evaluates the adequacy of these reserves quarterly.

### *Property and Equipment*

Property and equipment are carried at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to thirty years. Leasehold improvements are amortized on a straight-line basis over the shorter of (i) their estimated useful lives and (ii) the estimated or contractual lives of the leases. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in results of operations. Charges for repairs and maintenance are expensed as incurred.

### *Goodwill and Intangible Assets*

The annual impairment testing required by ASC 350, *Intangibles Goodwill and Other* requires the Company to use judgment and could require the Company to write down the carrying value of its goodwill and other intangible assets in future periods. The Company allocates goodwill to identifiable geographic reporting units, which are tested for impairment using a two-step process detailed in that statement. See Note 7 to the consolidated financial statements. The first step requires comparing the fair value of each reporting unit with the carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is not required to be performed, and no impairment charge is required to be recorded. If that fair value does not exceed that carrying amount, the Company must perform the second step, which requires an allocation of the fair value of the reporting unit to all assets and liabilities of that unit as if the reporting unit had been acquired in a purchase business combination and the fair value of the reporting unit was the purchase price. The goodwill resulting from that purchase price allocation is then compared to the carrying amount with any excess recorded as an impairment charge.

Goodwill set forth on the Consolidated Balance Sheet as of December 31, 2012 arose from acquisitions carried out in 2012, 2011, 2010 and 2009 and in years prior to December 31, 2007. Goodwill arising from acquisitions prior to 2007 was allocated to geographic reporting units based on the percentage of SLS printers then installed by geographic area. Goodwill arising from acquisitions in 2009, 2010, 2011 and 2012 was allocated to geographic reporting units based on geographic dispersion of the acquired companies' sales at the time of their acquisition.

The Company is required to perform a valuation of each of its three geographic reporting units annually, or upon significant changes in the Company's business environment. The Company conducted its annual impairment analysis in the fourth quarter of 2012. To determine the fair value of each reporting unit the Company utilized discounted cash flows, using five years of projected unleveraged free cash flows and terminal EBITDA earnings multiples. The discount rates used for the analysis reflected a weighted average cost of capital based on industry and capital structure adjusted for equity risk premiums and size risk premiums based on market capitalization. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions and may differ from actual future cash flows. The Company also considered the current trading multiples of comparable publicly-traded companies and the historical pricing multiples for comparable merger and acquisition transactions that have occurred in the industry. The control premium that a third party would be willing to pay to obtain a controlling interest in the Company was considered when determining fair value. Under each fair value measurement methodology considered, the fair value of each reporting unit exceeded its carrying value; accordingly, no goodwill impairment adjustments were recorded. In addition, factors such as the performance of competitors were also considered. The Company concluded that there was a reasonable basis for the excess of the estimated fair value of the geographic reporting units over its market capitalization.

## **Table of Contents**

The estimated fair value of the three geographic reporting units incorporated judgment and the use of estimates by management. Potential factors requiring assessment include the relationship between our market capitalization and our book value, variance in results of operations from projections, and additional acquisition transactions in the industry that reflect a lower control premium. Any of these factors may cause management to reevaluate goodwill during any quarter throughout the year. If an impairment charge were to be taken for goodwill it would be a non-cash charge and would not impact the Company's cash position or cash flows; however, such a charge could have a material impact to equity and the statement of income and comprehensive income.

There was no goodwill impairment for the years ended December 31, 2012, 2011 or 2010.

Determining the fair value of a reporting unit, intangible asset or a long-lived asset is judgmental and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions that it believes are reasonable, but are uncertain and subject to changes in market conditions.

### *Licenses, Patent Costs and Other Long-Lived Assets*

Licenses, patent costs and other long-lived assets include costs incurred to perfect license or patent rights under applicable domestic and foreign laws and the amount incurred to acquire existing licenses and patents. Licenses and patent costs are amortized on a straight-line basis over their estimated useful lives, which are approximately seven to twenty years. Amortization expense is included in cost of sales, research and development expenses and selling, general and administrative expenses, depending upon the nature and use of the technology.

The Company evaluates long-lived assets other than goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of the asset are less than its carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

No impairment loss was recorded for the periods presented.

### *Capitalized Software Costs*

Certain software development and production costs are capitalized when the related product reaches technological feasibility. There were no software development costs capitalized in 2012. Software development costs capitalized in 2011 and 2010 were \$7,863 and \$1,208, respectively. Capitalized software costs include internally developed software and certain costs that relate to developed software that the Company acquired through acquisition of businesses. Amortization of software development costs begins when the related products are available for use in related printers. Amortization expense, included in cost of sales, amounted to \$1,440, \$1,046 and \$159 for 2012, 2011 and 2010, respectively, based on the straight-line method using an estimated useful life ranging from two years to eight years. Net capitalized software costs aggregated \$6,424, \$7,864 and \$1,048 at December 31, 2012, 2011 and 2010, respectively, and are included in intangible assets in the accompanying consolidated balance sheets.

### *Contingencies*

The Company follows the provisions of ASC 450, Contingencies, which requires that an estimated loss from a loss contingency be accrued by a charge to income if it is both probable that an asset has been impaired or that a liability has been incurred and that the amount of the loss can be reasonably estimated.

### *Foreign Currency Translation*

The Company transacts business globally and is subject to risks associated with fluctuating foreign exchange rates. Approximately 45% of the Company's consolidated revenue is derived from sales outside the U.S. This revenue is generated primarily from sales subsidiaries operating outside the U.S. in their respective countries and surrounding geographic areas. This revenue is primarily denominated in each subsidiary's local functional currency, although certain sales are denominated in other currencies, including U.S. Dollars, the Euro or the Japanese Yen. These subsidiaries incur most of their expenses (other than intercompany expenses) in their local functional currencies. These currencies include Australian Dollars, British Pounds, Euros, Japanese Yen, Swiss Francs and South Korean Won.

## **Table of Contents**

The geographic areas outside the U.S. in which the Company operates are generally not considered to be highly inflationary. Nonetheless, these foreign operations are sensitive to fluctuations in currency exchange rates arising from, among other things, certain intercompany transactions that are generally denominated in U.S. Dollars rather than their respective functional currencies. The Company's operating results, assets and liabilities are subject to the effect of foreign currency translation when the operating results and the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. Dollars in the Company's consolidated financial statements. The assets and liabilities of the Company's foreign subsidiaries are translated from their respective functional currencies into U.S. Dollars based on the translation rate in effect at the end of the related reporting period. The operating results of the Company's foreign subsidiaries are translated to U.S. Dollars based on the average conversion rate for the related period. Gains and losses resulting from these conversions are recorded in accumulated other comprehensive income in the consolidated balance sheets.

Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the functional currency of the Company or a subsidiary) are included in the consolidated statements of income and other comprehensive income, except for intercompany receivables and payables for which settlement is not planned or anticipated in the foreseeable future, which are included as a component of accumulated other comprehensive income in the consolidated balance sheets.

### *Derivative Financial Instruments*

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates and commodity prices, which may adversely affect its results of operations and financial condition. The Company seeks to minimize these risks through regular operating and financing activities and, when the Company considers it to be appropriate, through the use of derivative financial instruments.

The Company does not purchase, hold or sell derivative financial instruments for trading or speculative purposes. 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) related to derivative instruments are recognized in interest and other income (expense), net in the consolidated statements of income and other comprehensive income and depending on the fair value at the end of the reporting period, derivatives are recorded either in prepaid and other current assets or in accrued liabilities in the consolidated balance sheets.

The Company and its subsidiaries conduct business in various countries using both their functional currencies and other currencies to effect cross border transactions. As a result, they 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, the Company endeavors to match assets and liabilities in the same currency on its U.S. balance sheet and those of its subsidiaries in order to reduce these risks. The Company, when it considers it to be appropriate, enters into foreign currency contracts to hedge the exposures arising from those transactions. The total impact of foreign currency related items on the consolidated statements of income and other comprehensive income was a net gain of \$145 for 2012, a net loss of \$118 for 2011 and a net loss of \$319 for 2010.

The Company is exposed to credit risk if the counterparties to such transactions are unable to perform their obligations. However, the Company seeks to minimize such risk by entering into transactions with counterparties that are believed to be creditworthy financial institutions.

The 5.50% senior convertible notes provide the noteholders with certain rights that the Company considers to be embedded derivatives. Embedded derivatives could be required to be bifurcated and accounted for separately from the underlying notes. The Company evaluated the embedded derivatives and determined that they were not required to be bifurcated.



## **Table of Contents**

### *Research and Development Costs*

Research and development costs are expensed as incurred.

### *Earnings per Share*

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income, as adjusted for the assumed issuance of all dilutive shares, by the weighted average number of shares of common stock outstanding plus the number of additional common shares that would have been outstanding if all dilutive common shares issuable upon exercise of outstanding stock options or conversion of convertible securities had been issued. Common shares related to stock options are excluded from the computation when their effect is anti-dilutive, that is, when their inclusion would increase the Company's net income per share or reduce its net loss per share. The average outstanding diluted shares calculation also excludes shares that may be issued upon conversion of the outstanding senior convertible notes because at December 31, 2012 their inclusion would have been anti-dilutive. At December 31, 2011, the average outstanding diluted shares calculation also excludes shares that may be issued upon conversion of the outstanding senior convertible notes because their conversion price exceeded the market price of the shares at December 31, 2011. See Note 17 to the consolidated financial statements.

### *Advertising Costs*

Advertising costs are expensed as incurred. Advertising expenses were \$3,972, \$1,516 and \$816 for the years ended December 31, 2012, 2011 and 2010, respectively.

### *Pension costs*

The Company sponsors a retirement benefit for one of its non-U.S. subsidiaries in the form of a defined benefit pension plan. Accounting standards require the cost of providing this pension benefit be measured on an actuarial basis. Actuarial gains and losses resulting from both normal year-to-year changes in valuation assumptions and differences from actual experience are deferred and amortized. The application of these accounting standards requires management to make assumptions and judgments that can significantly affect these measurements. Critical assumptions made by management in performing these actuarial valuations include the selection of the discount rate to determine the present value of the pension obligations that affects the amount of pension expense recorded in any given period. Changes in the discount rate could have a material effect on the Company's reported pension obligations and related pension expense. See Note 15 to the consolidated financial statements.

### *Equity Compensation Plans*

The Company maintains stock-based compensation plans that are described more fully in Note 14 to the consolidated financial statements. Under the fair value recognition provisions of ASC 718, Compensation Stock Compensation, stock-based compensation is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award.

### *Income Taxes*

The Company and its domestic subsidiaries file a consolidated U.S. federal income tax return. The Company's non-U.S. subsidiaries file income tax returns in their respective jurisdictions. The Company provides for income taxes on those portions of its foreign subsidiaries' accumulated earnings that the Company believes are not reinvested permanently in their business.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax benefit carryforwards. Deferred income tax liabilities and assets at the end of each period are determined using enacted tax rates.

## **Table of Contents**

The Company provides a valuation allowance for those jurisdictions in which the expiration date of tax benefit carryforwards or projected taxable earnings leads the Company to conclude that it is not likely that it will be able to realize the tax benefit of those carryforwards.

During the fourth quarter of 2012, based upon the Company's recent results of operations and its expected profitability in the future, the Company concluded that it is more likely than not that its current U.S. deferred tax assets will be realized.

The Company applies ASC 740 to determine the impact of an uncertain tax position on the income tax returns. In accordance with ASC 740, this impact must be recognized at the largest amount that is more likely than not to be required to be recognized upon audit by the relevant taxing authority.

The Company includes interest and penalties accrued in the consolidated financial statements as a component of income tax expense.

See Note 20 to the consolidated financial statements.

### *Recent Accounting Pronouncements*

#### *Accounting Standards Implemented in 2012*

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. ASU 2011-04 explains how to measure fair value and intends to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. ASU 2011-04 became effective prospectively for interim and annual reporting periods beginning on or after December 15, 2011; early adoption was not permitted for public entities. The standard became effective for the Company in January 2012 and did not have a significant impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-8, *Intangibles—Goodwill and Other (Topic 350)*. ASU 2011-8 is intended to simplify the testing of goodwill for impairment by permitting an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. ASU 2011-8 became effective for fiscal years beginning after December 15, 2011, with early adoption permitted in limited circumstances. The standard became effective for the Company in January 2012 and did not have a significant impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in ASU 2011-5*. ASU 2011-12 defers the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income in ASU 2011-5. Entities should continue to report reclassification adjustments out of accumulated other comprehensive income consistent with the presentation requirements before ASU 2011-5. All other requirements in ASU 2011-5 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The standard became effective for the Company in January 2012 and did not have a significant impact on the Company's consolidated financial statements.

#### *New Accounting Standards to be Implemented*

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2012-2 (ASU 2012-2), *Intangibles—Goodwill and Other (Topic 350)*. ASU 2012-2 is intended to simplify the testing of intangible assets for impairment by permitting an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of indefinite-lived intangible assets is less than its carrying amount. If an entity determines on the basis of the qualitative factors this is the case, then it is required to perform the currently prescribed two-step impairment test described in Topic 350. ASU 2012-2 will become effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not anticipate that this amendment will have a significant impact on the company's consolidated financial statements.

## **Table of Contents**

No other new accounting pronouncements issued or effective during 2012 have had or are expected to have a significant impact on the Company's consolidated financial statements.

### **Note 3 Acquisitions**

#### *Fiscal Year 2012 Acquisitions*

On January 3, 2012, the Company acquired the shares of Z Corporation ( Z Corp ) and Vidar Systems Corporation ( Vidar ), located in Burlington, MA and Herndon, VA, respectively. Z Corp is a provider of personal and professional 3D printers, 3D scanners, proprietary print materials and printer services. Z Corp's operations have been integrated into the Company and are included in printers and other products and services revenue. Vidar is a provider of medical film scanners that digitize film for radiology, oncology, mammography and dental applications. Vidar's operations have been integrated into the Company and included in printers and other products revenue. The fair value of the consideration paid for this acquisition was \$134,918, net of cash acquired, all of which was paid in cash, and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date, and is included in the table below which summarizes 2012 acquisitions. The Company's purchase price allocations are preliminary and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities becomes available.

Z Corp and Vidar, the only significant acquisitions in 2012, have been recorded in the printers and other products, print materials and services categories of the Company's consolidated financial statements since the date of acquisition. Revenue for Z Corp and Vidar for 2012 was \$55,637 and operating income was \$8,478.

If the 2012 acquisition of Z Corp and Vidar had been included in the Company's results of operations since January 1, 2011, the consolidated revenue for 2012 and 2011 would have been \$353,633 and \$286,956, respectively. Net income would have been \$38,941 and \$27,487 for 2012 and 2011. The unaudited pro forma results provided reflect certain adjustments related to the acquisitions, such as amortization expense on intangible assets acquired, and do not include any cost synergies or other effects of the integration of the acquisition. These pro forma amounts are not necessarily indicative of the results that would have occurred if the acquisition had been completed at the beginning of 2011, nor are they indicative of the future operating results from the combined companies.

On April 5, 2012, the Company acquired the outstanding shares of Fresh Fiber B.V. ( Fresh Fiber ), moving from a minority shareholder to 100% ownership. Fresh Fiber designs and markets innovative 3D printed accessories for retail consumer electronics. Fresh Fiber's operations have been integrated into the Company and are included in products revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,243, based on the Euro exchange rate at the date of acquisition, of which \$848 was paid in cash and \$395 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. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. The Fresh Fiber acquisition is not significant to the Company's financial statements.

Subject to the terms and conditions of the Fresh Fiber acquisition agreement, the seller has the right to earn an additional amount pursuant to an earnout formula over a three-year period as set forth in the acquisition agreement. The earnout was determined to be acquisition consideration and therefore is reflected as part of goodwill and was accrued based on the acquisition date fair value.

## **Table of Contents**

On April 10, 2012, the Company acquired Kodama Studios, LLC, which operates My Robot Nation, ( My Robot Nation ), a consumer technology platform that provides intuitive, game-like content creation for 3D printing. My Robot Nation's operations have been integrated into the Company and future revenue from this acquisition will be reported in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$2,749, of which \$1,499 was paid in cash and \$1,250 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. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed based on the estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. The My Robot Nation acquisition is not significant to the Company's financial statements.

On April 17, 2012, the Company acquired the assets of Paramount Industries ( Paramount ), a direct rapid manufacturing provider of product development solutions for aerospace and medical device applications, from design to production of certified end-use parts and products. Paramount's operations have been integrated into the Company and revenue since the date of acquisition is reported in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$7,953, of which \$6,138 was paid in cash and \$1,815 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. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed based on the estimated fair values as of the acquisition date, with any excess to be recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. The Paramount acquisition is not significant to the Company's financial statements.

Subject to the terms and conditions of the Paramount acquisition agreement, the seller has the right to earn an additional amount pursuant to an earnout formula over a five-year period as set forth in the acquisition agreement. The earnout was determined not to be acquisition consideration and therefore will be recorded as compensation expense in the period earned. In connection with the acquisition the Company entered into a lease agreement with the former owner of Paramount Industries pursuant to which the Company agreed to lease the facilities at which Paramount Industries conducts its operations. The lease provides for an initial term of five years, with options for two successive three-year terms.

On May 23, 2012, the Company acquired the shares of Bespoke Innovations, Inc. ( Bespoke ), a startup that is bringing a more personal approach to the way a broad spectrum of medical devices are developed and used. Bespoke develops proprietary, integrated scan, design and print technology that is designed to deliver custom fit prosthetics, orthotics and orthopedic devices that improve treatment and lifestyle outcomes. Bespoke's operations have been integrated into the Company and revenue since the date of acquisition is reported in products revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$7,903 of which \$4,064 was paid in cash and \$3,144 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. Subject to the terms and conditions of the acquisition agreement, the sellers have the right to a deferred payment of \$695. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on the estimated fair values as of the acquisition date, with any excess to be recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. The Bespoke acquisition is not significant to the Company's financial statements.

On July 23, 2012, the Company acquired the shares of Viztu Technologies, Inc. ( Viztu ). Viztu is the developer of Hypr3D , an online platform that allows anyone to turn their pictures and videos into printable 3D creations. Viztu's operations have been integrated into the Company and revenue since the date of acquisition is included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,000, of which \$500 was paid in cash and \$500 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. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. The Viztu acquisition is not significant to the Company's financial statements.

## Table of Contents

Subject to the terms and conditions of the Viztu acquisition agreement, the seller has the right to earn an additional amount, of up to a maximum of \$1,000, pursuant to an earnout formula over a four-year period as set forth in the acquisition agreement. The earnout was determined not to be acquisition consideration and therefore will be recorded as compensation expense in the period earned.

On October 1, 2012, the Company acquired the shares of TIM The Innovative Modelmakers B.V. ( *TIM* ), a full service provider of on-demand custom parts services, located in the Netherlands. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,714, based on the exchange rate of the Euro at the date of acquisition, of which \$1,148 was paid in cash and \$566 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. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. The Company integrated TIM into its European on-demand parts services, and revenue since the acquisition date is reported in services revenue. The TIM acquisition is not significant to the Company's financial statements.

On October 9, 2012, the Company acquired the shares of INUS Technology, Inc., a developer of scan-to-CAD and inspection software tools, known as Rapidform ( *Rapidform* ). Rapidform is located in Seoul, South Korea. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$33,918, all of which was paid in cash. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below which summarizes 2012 acquisitions. Rapidform revenue is reported in products revenue. The Rapidform acquisition is not significant to the Company's financial statements.

The Company's purchase price allocations for the acquired companies are preliminary and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities becomes available. The amounts related to the acquisitions of these businesses were allocated to the assets acquired and the liabilities assumed and included in the Company's condensed consolidated balance sheet at December 31, 2012 as follows:

| <i>(in thousands)</i>                                      | <b>2012</b> |
|------------------------------------------------------------|-------------|
| Fixed assets                                               | \$ 9,599    |
| Intangible assets                                          | 200,407     |
| Other liabilities, net of cash acquired and assets assumed | (18,719)    |
| Net assets acquired                                        | \$ 191,287  |

### *Subsequent Acquisitions*

On January 3, 2013 the Company entered into an agreement to acquire Geomagic, Inc. ( *Geomagic* ), located in Morrisville, North Carolina. The transaction is subject to closing conditions and the Company expects to close on the acquisition of Geomagic by the end of February, 2013. Geomagic is a leading global provider of 3D authoring solutions including design, sculpt and scan software tools that are used to create 3D content and inspect products throughout the entire design and manufacturing process. The terms of the transaction have not been disclosed. Upon closing, the Company plans to integrate Geomagic into its computer aided tools business unit and revenue will be reported in the products category.

On January 10, 2013, the Company acquired COWEB, located in Paris, France. COWEB is a start-up that creates consumer customized 3D printed products and collectibles. The terms of the transaction were not disclosed. Due to the timing of this acquisition, the Company is in the process of allocating the fair values of the assets purchased, liabilities assumed and other intangibles identified as of the acquisition date, with any excess to be recorded as goodwill. The Company plans to integrate COWEB into its Cubify consumer solutions and future revenue from this acquisition will be reported in services revenue. The COWEB acquisition is not significant to the Company's financial statements.

## **Table of Contents**

### *Fiscal Year 2011 Acquisitions*

On January 5, 2011, the Company acquired the assets of National RP Support, Inc. ( NRPS ). NRPS is a provider of customer support services and a factory-authorized source of parts, maintenance, and other services for 3D Systems equipment. NRPS operations have been integrated into the Company and included in services revenue. The fair value of the consideration paid for this acquisition was \$5,550, all of which was paid in cash, and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date, and is included in the table below which summarizes 2011 acquisitions.

On February 22, 2011, the Company acquired the shares of Quickparts.com, Inc. ( Quickparts ). Quickparts is a custom parts services company. Quickparts operations have been integrated into the Company and included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$22,775, all of which was paid in cash, and was allocated to the assets purchased and liabilities assumed, based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions.

Quickparts, the only significant acquisition in 2011, has been recorded in the services category of the Company's consolidated financial statements since the date of acquisition. Revenue for Quickparts for 2011 was \$24,127 and operating income was \$2,799.

If the 2011 acquisition of Quickparts had been included in the Company's results of operations since January 1, 2010, the consolidated revenue for 2011 and 2010 would have been \$233,612 and \$185,055, respectively. Net income would have been \$34,144 and \$20,102 for 2011 and 2010. The unaudited pro forma results provided reflect certain adjustments related to the acquisitions, such as amortization expense on intangible assets acquired, and do not include any cost synergies or other effects of the integration of the acquisition. These pro forma amounts are not necessarily indicative of the results that would have occurred if the acquisition had been completed at the beginning of 2010, nor are they indicative of the future operating results from the combined companies.

On March 8, 2011, the Company acquired the assets of Accelerated Technologies, Inc. ( ATI ). ATI is a custom parts services company. ATI operations have been integrated into the Company and included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,000, all of which was paid in cash, and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date, and is included in the table below which summarizes 2011 acquisitions.

On April 13, 2011, the Company acquired the assets of Print3D Corporation ( Print3D ), a startup company that develops custom parts services for Computer Aided Design ( CAD ) users through advanced desktop tools that integrate directly into their design environment. Print3D operations have been integrated into consumer solutions and revenue is included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,250 and was allocated to the assets purchased based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions. Of the consideration, \$1,000 was paid in cash and \$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.

Subject to the terms and conditions of the Print 3D acquisition agreement, the sellers have the right to earn an additional amount of up to approximately \$8,925, pursuant to an earnout formula set forth in the acquisition agreement, for a period of thirty-six months, which commenced on June 1, 2011. The earnout was determined not to be acquisition consideration and therefore will be recorded as compensation expense in the period earned.

## **Table of Contents**

On April 14, 2011, the Company acquired the assets of Sycode, a software development company based in India. Sycode specializes in providing plug-ins for all commercially available CAD packages. Sycode operations have been integrated into the Company and revenue is included in products revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$500, all of which was paid in cash, and was allocated to the assets purchased based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions.

On May 6, 2011, the Company acquired the assets of The3dStudio.com, Inc. ( 3dStudio ), a provider of 3D and 2D digital media libraries, offering resources and expert support through a vibrant online marketplace exchange for consumers and professionals. 3dStudio operations have been integrated into the Company and included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$2,500 and was allocated to the assets purchased and liabilities assumed based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions. Of the consideration, \$1,875 was paid in cash and \$625 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.

On May 12, 2011, the Company acquired the shares of Freedom Of Creation ( FOC ), based in the Netherlands, a provider of printable collections of innovative and practical 3D content, including products commercialized by fashion and design labels. FOC operations have been integrated into the Company and included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$2,286 and was allocated to the assets purchased and liabilities assumed based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions. Of the consideration, \$1,136 was paid in cash and \$1,150 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.

On July 19, 2011, the Company acquired the assets of Alibre Inc. ( Alibre ), a provider of design productivity solutions. Alibre's operations have been integrated into the Company and revenue is included in products and services revenue. The fair value of the consideration paid for this acquisition was \$3,800, all of which was paid in cash and was allocated to the assets purchased and liabilities assumed, based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions.

On August 9, 2011, the Company acquired certain assets of Content Media, Inc. related to the Botmill printer ( Botmill ). Botmill is a manufacturer of desktop 3D printers, kits, materials and accessories. Botmill's operations have been integrated into the Company and revenue is included in products revenue. The fair value of the consideration paid for this acquisition was \$17, all of which was paid in cash, and was allocated to the assets purchased based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions.

Subject to the terms and conditions of the Botmill acquisition agreement, the sellers have the right to earn an additional amount up to a maximum of \$1,000, pursuant to an earn-out formula set forth in the acquisition agreement, for a period of three years, which commenced on September 1, 2011. The earnout was determined not to be acquisition consideration and therefore will be recorded as compensation expense in the period earned. As of December 21, 2012 it has been determined that the sellers are not eligible for the earnout.

On September 20, 2011, the Company acquired the shares of Formero Pty, Ltd. and its wholly-owned subsidiary XYZ Innovation ( Formero ). Formero, based in Australia, with an additional office in China, is a provider of on-demand custom parts services and a distributor of 3D printers. Formero's operations have been integrated into the Company and included in services revenue and products revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$5,967 and was allocated to the assets purchased and liabilities assumed, based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions. Of the consideration, \$4,967 was paid in cash and \$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.

Subject to the terms and conditions of the Formero acquisition agreement, the sellers have the right to earn an additional amount of up to a maximum of approximately \$2,012, 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, 2011. The earnout was determined not to be acquisition consideration and therefore will be recorded as compensation expense in the period earned.

## Table of Contents

On October 4, 2011, the Company acquired the shares of Kemo Modelmakerij B.V. ( Kemo ). Kemo, based in the Netherlands, is a provider of on-demand custom parts services. Kemo's operations have been integrated into the Company and revenue is recorded in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was approximately \$3,719, based on the exchange rate at the date of acquisition, all of which was paid in cash, and was allocated to the assets purchased and liabilities assumed based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions.

On November 1, 2011, the Company acquired the RenShape® stereolithography print materials and Digitalis® rapid manufacturing 3D printer product line from the Advanced Materials Division of Huntsman Corporation ( Huntsman ). Huntsman's print materials operations have been integrated into the Company and revenue is included products revenue. The fair value of the consideration paid for this acquisition was \$41,286 all of which was paid in cash, and was allocated to the assets purchased based on the estimated fair values at the date of acquisition, and is included in the table below which summarizes 2011 acquisitions.

The amounts related to the acquisition of these businesses were allocated to the assets acquired and the liabilities assumed as follows:

| <i>(in thousands)</i>                                      | <b>2011</b> |
|------------------------------------------------------------|-------------|
| Fixed assets                                               | \$ 3,597    |
| Intangible assets                                          | 89,881      |
| Other liabilities, net of cash acquired and assets assumed | (2,828)     |
| Net assets acquired                                        | \$ 90,650   |

### *Fiscal 2010 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 3Dproparts service to the West Coast. Moeller Design has been integrated into the Company's 3Dproparts 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 and is included in the table below which summarizes 2010 acquisitions. In addition, there was a bargain purchase gain for \$37. Of the \$3,600 consideration, \$2,600 was paid in cash and \$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 3Dproparts service. DPT has been integrated into the Company's 3Dproparts 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 and is included in the table below which summarizes 2010 acquisitions. Of the \$3,600 consideration, \$3,000 was paid in cash and \$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.



## **Table of Contents**

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 also includes a right of first refusal with respect to the sale of the building. The Company did not exercise its renewal option.

On July 7, 2010, the Company acquired the assets of CEP S.A. and its affiliate, Protometal S.A. (collectively "CEP"), rapid prototyping and printed part service providers located in Jou   1 Abb  , 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 \$3,502 and was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date and is included in the table below which summarizes 2010 acquisitions. Of the \$3,502 consideration, \$2,426 was paid in cash and \$1,076 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 CEP acquisition, the Company entered into lease agreements, pursuant to which the Company agreed to lease two facilities at which CEP's operations are conducted. The leases' current terms extend until December 2013 and December 2014, respectively, at which points the Company has certain renewal options.

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 has been integrated into the Company's 3Dparts service. 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 and is included in the table below which summarizes 2010 acquisitions. Of the \$1,650 consideration, \$1,400 was paid in cash and \$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.

On October 5, 2010, the Company acquired the shares of Bits From Bytes Limited ("Bits From Bytes") located near Bristol, England. Bits From Bytes is a producer of personal 3D printers and printer kits. Bits From Bytes has been integrated into the Company. 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 \$2,185, of which \$1,592 was paid in cash and \$593 was paid in shares of the Company's common stock, all of which was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date and is included in the table below which summarizes 2010 acquisitions. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

Subject to the terms and conditions of the Bits from Bytes acquisition agreement, the sellers have the right to deferred payments of approximately \$1,420, based on the exchange rate at December 31, 2011, pursuant to details set forth in the acquisition agreement for a period of three years which commenced December 31, 2011.

On October 12, 2010, the Company acquired the shares of Provel, S.r.l. ("Provel"). Provel is an Italian provider of rapid prototyping, tooling and printed parts services located near Turin, Italy. The Company acquired Provel as part of its continued expansion of its 3Dparts service in Europe. Provel has been integrated into the Company's 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 \$11,955, of which \$6,848 was paid in cash and \$1,387 was paid in shares at closing, with a second installment of \$3,720 paid October 2011, all of which was allocated to the assets purchased and liabilities assumed based on their estimated fair values as of the acquisition date and is included in the table below which summarizes 2010 acquisitions. The shares were issued in a private transaction exempt from registration under the Securities Act of 1933.

## Table of Contents

Subject to the terms and conditions of the Provel 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 earnout formula set forth in the acquisition agreement, for a period of twelve months, which commenced on February 1, 2011. The fair value of the consideration was allocated to the purchased assets and liabilities assumed based on their estimated fair values as of the date of acquisition. The earnout was determined to be acquisition consideration and therefore is reflected as part of goodwill and was accrued based on the acquisition date fair value.

Provel S.r.l., the only significant acquisition in 2010, has been recorded in the Services category of the Company's consolidated financial statements since the date of acquisition. Revenue for Provel for 2010 was \$1,117 and operating income was \$257.

If Provel had been included in the Company's results of operations since January 1, 2009, the consolidated revenue for 2010 and 2009 would have been \$163,965 and \$119,005, respectively. Net income would have been \$20,056 and \$1,214 for 2010 and 2009. The unaudited pro forma results provided reflect certain adjustments related to the acquisitions, such as amortization expense on intangible assets acquired, and do not include any cost synergies or other effects of the integration of the acquisition. These pro forma amounts are not necessarily indicative of the results that would have occurred if the acquisition had been completed at the beginning of 2009, nor are they indicative of the future operating results from the combined companies.

All the other acquisitions the Company completed in 2010 were not material, either individually or in aggregate; therefore, no pro forma financial information is provided for these acquisitions. Moeller Design and Development, Inc., Design Prototyping Technologies, Inc., CEP S.A., Protometal S.A. and Express Pattern, Inc. have been recorded in the services category in the Company's consolidated financial statements since the date of acquisition. Bits From Bytes Limited has been recorded in the printers and other products category in the Company's consolidated financial statements since the period of acquisition.

The amounts related to the acquisition of these businesses were allocated to the assets acquired and the liabilities assumed as follows:

| <i>(in thousands)</i>                                      | <b>2010</b>      |
|------------------------------------------------------------|------------------|
| Fixed assets                                               | \$ 5,523         |
| Intangible assets                                          | 25,932           |
| Other liabilities, net of cash acquired and assets assumed | (4,926)          |
| Gain from bargain purchase                                 | (37)             |
| <b>Net assets acquired</b>                                 | <b>\$ 26,492</b> |

## Note 4 Inventories

Components of inventories, net at December 31, 2012 and 2011 are as follows:

| <i>(in thousands)</i>    | <b>2012</b>      | <b>2011</b>      |
|--------------------------|------------------|------------------|
| Raw materials            | \$ 20,325        | \$ 8,797         |
| Work in process          | 477              | 606              |
| Finished goods and parts | 24,552           | 18,422           |
| <b>Total cost</b>        | <b>45,354</b>    | <b>27,825</b>    |
| <b>Less: reserves</b>    | <b>(3,534)</b>   | <b>(2,542)</b>   |
| <b>Inventories, net</b>  | <b>\$ 41,820</b> | <b>\$ 25,283</b> |

## Table of Contents

### Note 5 Property and Equipment

Property and equipment at December 31, 2012 and 2011 are summarized as follows:

| <i>(in thousands)</i>                           | 2012      | 2011      | Useful Life<br>(in years) |
|-------------------------------------------------|-----------|-----------|---------------------------|
| Land                                            | \$ 541    | \$ 541    | N/A                       |
| Building                                        | 9,315     | 9,204     | 25                        |
| Machinery and equipment                         | 45,869    | 36,773    | 3-7                       |
| Capitalized software ERP                        | 3,181     | 3,141     | 5                         |
| Office furniture and equipment                  | 3,357     | 3,138     | 5                         |
| Leasehold improvements                          |           |           | Life of lease<br>(1)      |
|                                                 | 6,467     | 5,996     |                           |
| Rental equipment                                | 57        | 56        | 5                         |
| Construction in progress                        | 2,595     | 980       | N/A                       |
| Total property and equipment                    | 71,382    | 59,829    |                           |
| Less: Accumulated depreciation and amortization | (37,029)  | (30,235)  |                           |
| Total property and equipment, net               | \$ 34,353 | \$ 29,594 |                           |

(1) Leasehold improvements are amortized on a straight-line basis over the shorter of (i) their estimated useful lives and (ii) the estimated or contractual life of the related lease.

Depreciation expense for 2012, 2011 and 2010 was \$8,441, \$6,267 and \$6,118, respectively.

Capitalized leases related to buildings had a cost of \$8,496 at December 31, 2012 and \$8,496 at December 31, 2011. Capitalized leases related to office furniture and equipment had a cost of \$125 at December 31, 2012 and \$24 at December 31, 2011.

For the year ended December 31, 2012, the Company recognized no software amortization expense for enterprise resource planning ( ERP ) system capitalization costs compared to \$225 and \$537 for the years ended December 31, 2011 and 2010, respectively.

### Note 6 Intangible Assets

Intangible assets other than goodwill at December 31, 2012 and December 31, 2011 are as follows:

| <i>(in thousands)</i>                | Gross    | 2012<br>Accumulated<br>Amortization | Net    | Gross    | 2011<br>Accumulated<br>Amortization | Net    |
|--------------------------------------|----------|-------------------------------------|--------|----------|-------------------------------------|--------|
| Intangible assets with finite lives: |          |                                     |        |          |                                     |        |
| Licenses                             | \$ 5,875 | \$ (5,875)                          | \$     | \$ 5,875 | \$ (5,875)                          | \$     |
| Patent costs                         | 27,635   | (14,047)                            | 13,588 | 16,379   | (13,846)                            | 2,533  |
| Acquired technology                  | 26,262   | (11,852)                            | 14,410 | 11,015   | (10,345)                            | 670    |
| Internally developed software        | 17,847   | (11,424)                            | 6,423  | 17,847   | (9,983)                             | 7,864  |
| Customer relationships               | 60,329   | (7,754)                             | 52,575 | 32,974   | (1,798)                             | 31,176 |
| Non-compete agreements               | 14,051   | (3,836)                             | 10,215 | 8,976    | (1,890)                             | 7,086  |
| Trade names                          | 5,814    | (723)                               | 5,091  | 1,951    | (180)                               | 1,771  |
| Other                                | 6,356    | (3,051)                             | 3,305  | 1,986    | (1,746)                             | 240    |
| Intangibles with indefinite lives:   |          |                                     |        |          |                                     |        |
| Trademarks                           | 2,770    |                                     | 2,770  | 2,700    |                                     | 2,700  |

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

|                         |            |             |            |           |             |           |
|-------------------------|------------|-------------|------------|-----------|-------------|-----------|
| Total intangible assets | \$ 166,939 | \$ (58,562) | \$ 108,377 | \$ 99,703 | \$ (45,663) | \$ 54,040 |
|-------------------------|------------|-------------|------------|-----------|-------------|-----------|

F-24

## Table of Contents

During 2012, 2011 and 2010, the Company capitalized \$729, \$336 and \$302, respectively, for costs incurred to acquire, develop and extend patents in the United States and various other countries. Amortization of such previously capitalized patent costs was \$215 in 2012, \$237 in 2011 and \$474 in 2010.

At December 31, 2012, the gross acquired technology balance was \$26,262. Acquired technology increased \$15,247 in 2012 from \$11,015 in 2011 due to technology from acquisitions and foreign currency exchange effects. The related accumulated amortization increased \$1,507, net of foreign currency exchange impacts.

The Company had \$80,276 and \$50,837 of other net intangible assets, consisting of internally developed software, non-compete agreements, customer relationships and trade names and other intangibles from acquisitions, as of December 31, 2012 and 2011, respectively. Internally developed software also includes certain software costs that relate to developed software the Company obtained through acquisitions. Acquisition activities during the year ended December 31, 2012 yielded \$65,957 of other intangible assets compared to \$40,832 in 2011. Amortization expense related to such intangible assets was \$12,573, \$4,588 and \$928 for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization of these intangible assets is calculated on a straight-line basis over periods ranging from eighteen months to twenty years.

Annual amortization expense for intangible assets is expected to be \$13,632 in 2013, \$13,513 in 2014, \$12,293 in 2015, \$11,074 in 2016 and \$9,966 in 2017.

## Note 7 Goodwill

The following are the changes in the carrying amount of goodwill by geographic reporting unit:

| <i>(in thousands)</i>                     | U.S.       | Europe    | Asia-Pacific | Total      |
|-------------------------------------------|------------|-----------|--------------|------------|
| Balance at January 1, 2011                | \$ 19,947  | \$ 32,101 | \$ 6,930     | \$ 58,978  |
| Effect of foreign currency exchange rates |            | (638)     | 14           | (624)      |
| Goodwill acquired through acquisitions    | 41,365     | 3,026     | 4,906        | 49,297     |
| Balance at December 31, 2011              | 61,312     | 34,489    | 11,850       | 107,651    |
| Effect of foreign currency exchange rates |            | 697       | 630          | 1,327      |
| Goodwill acquired through acquisitions    | 106,890    | 5,090     | 19,356       | 131,336    |
| Balance at December 31, 2012              | \$ 168,202 | \$ 40,276 | \$ 31,836    | \$ 240,314 |

The effect of foreign currency exchange in this table reflects the impact on goodwill of amounts recorded in currencies other than the U.S. Dollar on the financial statements of subsidiaries in these geographic areas resulting from the yearly effect of foreign currency translation between the applicable functional currency and the U.S. Dollar. The remaining goodwill for Europe and the entire amount of goodwill for Asia-Pacific represent amounts allocated in U.S. Dollars from the U.S. to those geographic areas for financial reporting purposes.

## **Table of Contents**

### **Note 8 Employee Benefits**

The Company sponsors a Section 401(k) plan (the Plan) covering substantially all its eligible U.S. employees. The Plan entitles eligible employees to make contributions to the Plan after meeting certain eligibility requirements. Contributions are limited to the maximum contribution allowances permitted under the Internal Revenue Code. The Company matches 50% of the employee contributions up to a maximum of \$3 as set forth in the Plan. The Company may also make discretionary contributions to the Plan, which would be allocable to participants in accordance with the Plan. For the years ended December 31, 2012, 2011 and 2010, the Company expensed \$489, \$241 and \$224, respectively, for matching contributions to the Plan.

The Company also sponsors a Section 401(k) plan covering eligible employees of Quickparts (the Quickparts Plan), which was acquired in early 2011. The Quickparts Plan entitles eligible employees to make contributions to the Quickparts Plan after meeting certain eligibility requirements. Contributions are limited to the maximum contribution allowances permitted under the Internal Revenue Code. The Company does not match the employee contributions; therefore, the Company had no expense for matching contributions to the Quickparts Plan.

### **Note 9 Accrued and Other Liabilities**

Accrued liabilities at December 31, 2012 and 2011 are as follows:

| <i>(in thousands)</i>                                  | <b>2012</b>      | <b>2011</b>      |
|--------------------------------------------------------|------------------|------------------|
| Compensation and benefits                              | \$ 13,582        | \$ 7,036         |
| Vendor accruals                                        | 3,357            | 1,640            |
| Accrued professional fees                              | 533              | 326              |
| Accrued taxes                                          | 3,382            | 3,500            |
| Royalties payable                                      | 550              | 302              |
| Accrued interest                                       | 266              | 950              |
| Earnouts and deferred payments related to acquisitions | 2,657            | 1,384            |
| Accrued other                                          | 462              | 1,678            |
| <b>Total</b>                                           | <b>\$ 24,789</b> | <b>\$ 16,816</b> |

Other liabilities at December 31, 2012 and 2011 are summarized below:

| <i>(in thousands)</i>                                  | <b>2012</b>      | <b>2011</b>     |
|--------------------------------------------------------|------------------|-----------------|
| Defined benefit pension obligation                     | \$ 5,139         | \$ 3,884        |
| Long-term tax liability                                | 803              | 827             |
| Earnouts and deferred payments related to acquisitions | 1,454            | 1,898           |
| Long term deferred revenue                             | 2,787            | 1,475           |
| Other long-term liabilities                            | 657              | 182             |
| <b>Total</b>                                           | <b>\$ 10,840</b> | <b>\$ 8,266</b> |

**Table of Contents****Note 10 Hedging Activities and Financial Instruments**

Generally accepted accounting principles require the Company to disclose its estimate of the fair value of material financial instruments, including those recorded as assets or liabilities in its consolidated financial statements. The carrying amounts of current assets and liabilities approximate fair value due to their short-term maturities. Generally, the fair value of a fixed-rate instrument will increase as interest rates fall and decrease as interest rates rise.

The carrying amounts and fair values of the Company's other financial instruments at December 31, 2012 and 2011 were as follows:

| (in thousands)                 | 2012            |            | 2011            |            |
|--------------------------------|-----------------|------------|-----------------|------------|
|                                | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Grand Junction note receivable | \$ 1,891        | \$ 1,711   | \$ 1,918        | \$ 1,474   |
| 5.50% convertible notes        | \$ 80,531       | \$ 86,981  | \$ 131,107      | \$ 136,837 |

In December 2008, the Company sold its Grand Junction, Colorado facility for \$5,500, consisting of \$3,500 of cash proceeds (before deducting closing costs) and a zero interest five-year promissory note from the buyer. The Company discounted the note receivable by \$1,017, reducing the net gain on the sale to \$636. In accordance with ASC 360.20 Real Estate Sales, the Company has not recognized this gain on the sale of its Grand Junction facility as of December 31, 2012. The carrying value of the long-term receivable, net of the discount and deferred gain is recorded in Other assets, net. None of the gain will be recognized until the earlier of (i) the sale of the property securing the note by the buyer, or (ii) repayment of the promissory note by the buyer.

The note is secured by (i) a guarantee from the principals of the entity that purchased the facility and (ii) a second deed of trust on the facility.

The fair value of the Grand Junction note receivable was calculated at December 31, 2012 and 2011 by discounting the remaining payments using a discount rate of 13.63% and 13.78%, respectively. This rate was derived by taking the risk-free interest rate for similar maturities and adding an estimated risk premium intended to reflect the credit risk.

In November 2011, the Company entered into an indenture under which it privately placed \$152,000 of 5.50% Senior Convertible Notes due December 15, 2016 with institutional and accredited investors. The estimated fair value of the fixed-rate convertible notes in the table above differs from the amounts reflected on the balance sheet based on the difference between the mandatory redemption value and the market value of the notes. The interest rate used to discount the contractual payments associated with the debentures was 6.67% for 2012 and 5.88% for 2011.

The foregoing estimates are subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could significantly affect the Company's estimates.

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 consolidated statements of income and other comprehensive income. 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 consolidated balance sheet.

## Table of Contents

The total impact of foreign currency related items on the consolidated statements of income and other comprehensive income was a gain of \$145 for 2012, and losses of \$118 and \$319 for 2011 and 2010, respectively.

### Note 11 Borrowings

#### *5.5% senior convertible notes and interest expense*

In November 2011, the Company completed the private placement of \$152,000 of 5.50% senior convertible notes due in December 2016. These notes are senior unsecured obligations and rank equal in right of payment with all the Company's existing and future senior unsecured indebtedness. They are also senior in right of payment to any subordinated indebtedness that the Company may incur in the future.

The notes accrue interest at the rate of 5.50% per year payable in cash semi-annually on June 15 and December 15 of each year.

In May 2008, the FASB issued guidance contained in ASC Topic 470-20, *Debt with Conversion and Other Options* which applies to all convertible debt instruments that have a *net settlement feature*, which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. This topic requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers non-convertible debt borrowing rate.

The Company recognized the estimated equity component of the convertible notes as \$17,770, consisting of \$18,210 in additional paid-in capital reduced by \$440 of unamortized debt issuance costs allocated to the equity component and recognized this amount as a reduction to additional paid-in capital. The company also recognized a discount on convertible notes of \$3,040, which is being amortized as non-cash interest expense over the life of the notes.

The Company also recognized a deferred tax liability of \$7,200 as the tax effect of the basis difference between carrying values and tax basis of the convertible notes. The carrying value of this deferred tax liability offset certain net deferred tax assets for determining valuation allowances against those deferred tax assets. See Note 20 to the consolidated financial statements.

The following table summarizes the principal amounts and related unamortized discount on convertible notes:

| <i>(in thousands)</i>                     | <b>2012</b> | <b>2011</b> |
|-------------------------------------------|-------------|-------------|
| Principal amount of convertible notes     | \$ 90,960   | \$ 152,000  |
| Unamortized discount on convertible notes | (10,429)    | (20,893)    |
| Net carrying value                        | \$ 80,531   | \$ 131,107  |

The following table summarizes other information related to the convertible notes:

|                                                 |         |
|-------------------------------------------------|---------|
| <i>(in years)</i>                               |         |
| Total amortization period for debt discount     | 5 years |
| Remaining amortization period for debt discount | 4 years |
| Effective interest rates on convertible notes   | 9.51%   |



**Table of Contents**

The following table summarizes interest costs recognized on convertible notes:

| <i>(in thousands)</i>         | 2012             | 2011            | 2010      |
|-------------------------------|------------------|-----------------|-----------|
| Contractual interest coupon   | \$ 8,053         | \$ 906          | \$        |
| Amortization of debt discount | 3,876            | 409             |           |
| <b>Total</b>                  | <b>\$ 11,929</b> | <b>\$ 1,315</b> | <b>\$</b> |

These notes are convertible into shares of the Company's Common Stock at an initial conversion rate equivalent to 46.6021 shares of Common Stock per \$1 principal amount of notes, which represents an initial conversion rate of approximately \$21.46 per share of Common Stock. The conversion rate is subject to adjustment in certain circumstances as more fully set forth in the indenture covering the notes. During 2012 note holders converted \$61,040 aggregate principal amount of notes, which converted into 2,845 shares of common stock. The Company recognized a \$7,021 loss on conversion of these notes in other expense, net. As of December 31, 2012, the aggregate principal amount of notes outstanding was \$90,960.

From January 1, 2013 through February 15, 2013, note holders have converted \$34,620 aggregate principal amount of notes, which converted into 1,613 shares of common stock. The Company expects to recognize a loss of \$4,792 on conversion of these notes in other expense, net during the first quarter of 2013. As of February 15, 2013, the aggregate principal amount of notes outstanding was \$56,340, and the Company expects annual interest for the years 2013 through 2016 to be approximately \$5,250 per year.

If converted, the aggregate principal amount of the notes then outstanding may be settled in cash, shares of common stock, or a combination thereof, at the Company's election. Subject to the terms of the indenture, holders may convert their notes at any time. The number of shares of common stock the notes were convertible into at December 31, 2012 was approximately 4,239 shares. In certain circumstances provided by the indenture, the number of shares of common stock issuable upon conversion of the notes may be increased, and with it the aggregate principal amount of the notes. Unless earlier repurchased or converted, the notes will mature on December 15, 2016.

The notes were issued with an effective yield of 5.96% based upon an original issue discount at 98.0%. The net proceeds from the issuance of these Notes, after deducting original issue discount and capitalized issuance costs of \$6,634, amounted to \$145,366. The capitalized issuance costs are being amortized to interest expense over the life of the notes.

*Redemption Features convertible securities*

Upon certain terms and conditions, the Company may elect to satisfy its conversion obligation with respect to the notes by paying cash, in whole or in part, for specified aggregate principal amount of the notes. In the event of certain types of fundamental changes, the Company will increase the conversion rate by a number of additional shares, up to a maximum of 5,045 shares which equates to a conversion price of approximately \$16.83 per share at December 31, 2012.

*Interest Expense*

Interest expense totaled \$12,468 in 2012, compared to \$2,090 in 2011 and \$587 in 2010, while interest income totaled \$168 in 2012, compared to \$51 in 2011 and \$32 in 2010, reflecting the combined effect of the issuance of the senior convertible notes, lower interest rates on investments, and higher cash balances. For 2012 and 2011, interest expense related to capital leases and the 5.50% senior convertible notes, while in 2010, interest expense related to capital leases.

**Note 12 Lease Obligations**

The Company leases certain of its facilities and equipment under capitalized leases and other facilities and equipment under non-cancelable operating leases. The leases are generally on a net-rent basis, under which the Company pays taxes, maintenance and insurance. Leases that expire at various dates through 2031 are expected to be renewed or replaced by leases on other properties. Rental expense for the years ended December 31, 2012, 2011 and 2010 aggregated \$4,968, \$2,738 and \$1,977, respectively.



**Table of Contents**

The Company's future minimum lease payments as of December 31, 2012 under capitalized leases and non-cancelable operating leases, with initial or remaining lease terms in excess of one year, were as follows:

| <i>(in thousands)</i>                                        | <b>Capitalized<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|--------------------------------------------------------------|-------------------------------|-----------------------------|
| <b>Years ending December 31:</b>                             |                               |                             |
| 2013                                                         | \$ 698                        | \$ 4,269                    |
| 2014                                                         | 697                           | 2,827                       |
| 2015                                                         | 709                           | 1,784                       |
| 2016                                                         | 683                           | 1,537                       |
| 2017                                                         | 709                           | 986                         |
| Later years                                                  | 10,345                        | 1,012                       |
| <br>Total minimum lease payments                             | <br>13,841                    | <br>\$ 12,415               |
| <br>Less: amounts representing imputed interest              | <br>(6,224)                   |                             |
| <br>Present value of minimum lease payments                  | <br>7,617                     |                             |
| Less: current portion of capitalized lease obligations       | (174)                         |                             |
| <br>Capitalized lease obligations, excluding current portion | <br>\$ 7,443                  |                             |

*Rock Hill Facility*

The Company leases its headquarters and research and development facility pursuant to a lease agreement with Lex Rock Hill, LP. After its initial term ending August 31, 2021, the lease provides the Company with the option to renew the lease for two additional five-year terms. The lease also grants the Company the right to cause Lex Rock Hill, subject to certain terms and conditions, to expand the leased premises during the term of the lease, in which case the term of the lease would be extended. The lease is a triple net lease and provides for the payment of base rent of \$669 in 2013 through 2015, \$683 in 2016, including a rent escalation in 2016, \$709 in 2017 through 2020 and \$723 in 2021. Under the terms of the lease, the Company is obligated to pay all taxes, insurance, utilities and other operating costs with respect to the leased premises. The lease also grants the Company the right to purchase the leased premises and undeveloped land surrounding the leased premises on terms and conditions described more particularly in the lease. In 2011, the Company exercised its right to purchase the undeveloped land for \$370. This lease is recorded as a capitalized lease obligation under ASC 840, Leases. The implicit interest rate at December 31, 2012 and 2011 was 6.93%.

*Other Capital Lease Obligations*

The Company leases other equipment with lease terms through August 2015. In accordance with ASC 840, the Company has recorded these leases as capitalized leases. The implicit interest rate ranged from 1.55% to 7.80% at December 31, 2012 and 2011.

**Note 13 Preferred Stock and Stockholders' Rights Plan**

The Company had 5,000 shares of preferred stock that were authorized but unissued at December 31, 2012 and 2011. In connection with the stockholders' rights plan approved by the Company's Board of Directors in December 2008, 1,000 shares of such preferred stock were authorized as Series A Preferred Stock. This Series A Preferred Stock and the stockholders' rights plan were terminated by the Company's Board of Directors on November 18, 2011.

## **Table of Contents**

### **Note 14 Stock-Based Compensation**

Effective May 19, 2004, the Company adopted its 2004 Incentive Stock Plan (the "2004 Stock Plan") and its 2004 Restricted Stock Plan for Non-Employee Directors (the "2004 Director Plan"). Effective upon the adoption of these Plans, all the Company's previous stock option plans terminated, except with respect to options outstanding under those plans. As of December 31, 2012, all vested options had been exercised and there were no options outstanding. At December 31, 2011, the aggregate number of shares of common stock underlying outstanding options issued under all previous stock option plans was 1,076, at an average exercise price per share of \$3.76, with expiration dates through November 2013. All stock-based compensation expense for vested options was recognized prior to 2008.

In 2009, the maximum number of shares of common stock reserved for issuance under the 2004 Stock Plan was increased from 2,000 to 4,000. Total awards issued under this plan, net of repurchases, amounted to 540 shares of restricted stock in 2012, 384 shares of restricted stock in 2011, and 284 shares of restricted stock in 2010. The Company estimated the future value associated with awards granted in 2012, 2011 and 2010 as \$20,458, \$8,007 and \$3,688, respectively, which is calculated based on the fair market value of the common stock on the date of grant less the amount paid by the recipient and is expensed over the vesting period of each award. The compensation expense recognized in 2012, 2011 and 2010 was \$4,818, \$2,337 and \$1,149, respectively. Each of these awards was made with a vesting period of three years from the date of grant and required the recipient to pay the lesser of \$1.00 for each share or an amount equal to ten percent of the fair market value of the Company's common stock per share at the date of grant.

The purpose of this Plan is to provide an incentive that permits the persons responsible for the Company's growth to share directly in that growth and to further the identity of their interests with the interests of the Company's stockholders. Any person who is an employee of or consultant to the Company, or a subsidiary or an affiliate of the Company, is eligible to be considered for the grant of restricted stock awards, stock options or performance awards pursuant to the 2004 Stock Plan. The 2004 Stock Plan is administered by the Compensation Committee of the Board of Directors, which, pursuant to the provisions of the 2004 Stock Plan, has the sole authority to determine recipients of awards under that plan, the number of shares to be covered by such awards and the terms and conditions of each award. The 2004 Stock Plan may be amended, altered or discontinued at the sole discretion of the Board of Directors at any time.

The 2004 Director Plan provides for the grant of up to 400 shares of common stock to non-employee directors (as defined in the Plan) of the Company, subject to adjustment in accordance with the terms of the Plan. The purpose of this Plan is to attract, retain and motivate non-employee directors of exceptional ability and to promote the common interests of directors and stockholders in enhancing the value of the Company's common stock. Each non-employee director of the Company is eligible to participate in this Plan upon their election to the Board of Directors. The Plan provides for initial grants of 1 share of common stock to each newly elected non-employee director, annual grants of 3 shares of common stock as of the close of business on the date of each annual meeting of stockholders, and interim grants of 3 shares of common stock, or a pro rata portion thereof, to non-employee directors elected at meetings other than the annual meeting. Effective April 1, 2011, the Board of Directors amended this Plan to limit the value of any award of shares made to an eligible director to \$50, valued on the date of the award. The issue price of common stock awarded under this Plan is equal to the par value per share of the common stock. The Company accounts for the fair value of awards of common stock made under this Plan, net of the issue price, as director compensation expense in the period in which the award is made. During the years ended December 31, 2012, 2011 and 2010, the Company recorded \$300, \$300 and \$257, respectively, as director compensation expense in connection with awards of 11 shares in 2012, 16 shares in 2011 and 36 shares in 2010 of common stock made to the non-employee directors of the Company pursuant to this Plan.

## Table of Contents

As of December 31, 2012, 110 and 1,557 shares of common stock were available for future grants under the 2004 Director Plan and the 2004 Stock Plan, respectively. The status of the Company's stock options is summarized below:

|                                                          | 2012    |                                          | 2011    |                                          | 2010    |                                          |
|----------------------------------------------------------|---------|------------------------------------------|---------|------------------------------------------|---------|------------------------------------------|
|                                                          | Options | Weighted<br>Average<br>Exercise<br>Price | Options | Weighted<br>Average<br>Exercise<br>Price | Options | Weighted<br>Average<br>Exercise<br>Price |
| <i>(shares and options in thousands)</i>                 |         |                                          |         |                                          |         |                                          |
| Outstanding at beginning of year                         | 1,076   | \$ 3.76                                  | 1,554   | \$ 4.34                                  | 1,728   | \$ 4.60                                  |
| Exercised                                                | (1,056) | 3.70                                     | (452)   | 5.61                                     | (158)   | 7.13                                     |
| Lapsed or canceled                                       | (20)    | 7.12                                     | (26)    | 6.72                                     | (16)    | 5.34                                     |
| Outstanding at end of year                               |         | \$                                       | 1,076   | \$ 3.76                                  | 1,554   | 4.34                                     |
| Options exercisable at end of year                       |         |                                          | 1,076   |                                          | 1,554   |                                          |
| Shares available for future option grants <sup>(1)</sup> | 1,667   |                                          | 2,217   |                                          | 2,480   |                                          |

<sup>(1)</sup> Assumes the issuance of options permitted by the 2004 Incentive Stock Plan

The aggregate intrinsic value of stock options exercised during 2012, 2011 and 2010 was \$39,165, \$5,298 and \$785, respectively, determined as of the date of exercise.

## Note 15 International Retirement Plan

The Company sponsors a non-contributory defined benefit pension plan for certain employees of a non-U.S. subsidiary initiated by a predecessor of the subsidiary. The Company maintains insurance contracts that provide an annuity that is used to fund the current obligations under this plan. The net present value of that annuity was \$2,819 and \$2,536 as of December 31, 2012 and 2011, respectively. The net present value of that annuity is included in Other assets, net on the Company's consolidated balance sheets at December 31, 2012 and 2011.

The following table provides a reconciliation of the changes in the projected benefit obligation for the years ended December 31, 2012 and 2011:

| <i>(in thousands)</i>                                | 2012       | 2011       |
|------------------------------------------------------|------------|------------|
| Reconciliation of benefit obligations:               |            |            |
| Obligations as of January 1                          | \$ 3,936   | \$ 3,448   |
| Service cost                                         | 92         | 114        |
| Interest cost                                        | 191        | 196        |
| Actuarial loss                                       | 1,030      | 397        |
| Benefit payments                                     | (98)       | (56)       |
| Effect of foreign currency exchange rate changes     | 89         | (163)      |
| Obligations as of December 31                        | 5,240      | 3,936      |
| Funded status as of December 31 (net of tax benefit) | \$ (5,240) | \$ (3,936) |

The projected benefit obligation in the table above includes \$1,030 and \$397 of unrecognized net loss for the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, the Company recorded this \$1,030 loss, net of a \$316 tax benefit, as a \$714 adjustment to

Accumulated other comprehensive income in accordance with ASC 715, Compensation Retirement Benefits. At December 31, 2011, the Company recorded this \$397 loss, net of a \$122 tax benefit, as a \$275 adjustment to Accumulated other comprehensive income in accordance with ASC 715, Compensation Retirement Benefits.



## Table of Contents

The Company has recognized the following amounts in the consolidated balance sheets at December 31, 2012 and 2011:

| <i>(in thousands)</i>                  | <b>2012</b>     | <b>2011</b>     |
|----------------------------------------|-----------------|-----------------|
| Accrued liabilities                    | \$ 101          | \$ 52           |
| Other liabilities                      | 5,139           | 3,884           |
| Projected benefit obligation           | 5,240           | 3,936           |
| Accumulated other comprehensive income | (908)           | (194)           |
| <b>Total</b>                           | <b>\$ 4,332</b> | <b>\$ 3,742</b> |

The following projected benefit obligation and accumulated benefit obligation were estimated as of December 31, 2012 and 2011:

| <i>(in thousands)</i>          | <b>2012</b> | <b>2011</b> |
|--------------------------------|-------------|-------------|
| Projected benefit obligation   | \$ 5,240    | \$ 3,936    |
| Accumulated benefit obligation | \$ 4,840    | \$ 3,727    |

The following table shows the components of net periodic benefit costs and other amounts recognized in other comprehensive income:

| <i>(in thousands)</i>                                                                          | <b>2012</b>   | <b>2011</b>   |
|------------------------------------------------------------------------------------------------|---------------|---------------|
| Net periodic benefit cost:                                                                     |               |               |
| Service cost                                                                                   | \$ 92         | \$ 114        |
| Interest cost                                                                                  | 191           | 196           |
| <b>Total</b>                                                                                   | <b>\$ 283</b> | <b>\$ 310</b> |
| Other changes in plan assets and benefit obligations recognized in other comprehensive income: |               |               |
| Net loss                                                                                       | 714           | 275           |
| <b>Total expense recognized in net periodic benefit cost and other comprehensive income</b>    | <b>\$ 997</b> | <b>\$ 585</b> |

The following assumptions are used to determine benefit obligations as of December 31:

|                      | <b>2012</b> | <b>2011</b> |
|----------------------|-------------|-------------|
| Discount rate        | 3.80%       | 4.90%       |
| Rate of compensation | 2.00%       | 1.50%       |

The following benefit payments, including expected future service cost, are expected to be paid:

| <i>(in thousands)</i>              |        |
|------------------------------------|--------|
| Estimated future benefit payments: |        |
| 2013                               | \$ 144 |
| 2014                               | 147    |
| 2015                               | 150    |

|      |     |
|------|-----|
| 2016 | 169 |
| 2017 | 173 |

F-33



**Table of Contents****Note 16 Warranty Contracts**

The Company provides product warranties for up to one year as part of sales transactions for certain of its printers. Warranty revenue is recognized ratably over the term of the warranties, which is the period during which the related costs are incurred. This warranty provides the customer with maintenance on the equipment during the warranty period and provides for certain repair, labor and replacement parts that may be required. In connection with this activity, the Company recognized warranty revenue and incurred warranty costs as shown in the table below:

**Warranty Revenue Recognition**

| <i>(in thousands)</i>          | <b>Beginning Balance<br/>Deferred Warranty<br/>Revenue</b> | <b>Warranty<br/>Revenue<br/>Deferred</b> | <b>Warranty<br/>Revenue<br/>Recognized</b> | <b>Ending Balance<br/>Deferred<br/>Warranty<br/>Revenue</b> |
|--------------------------------|------------------------------------------------------------|------------------------------------------|--------------------------------------------|-------------------------------------------------------------|
| <b>Year Ended December 31,</b> |                                                            |                                          |                                            |                                                             |
| 2012                           | \$ 3,094                                                   | \$ 7,540                                 | \$ (6,553)                                 | \$ 4,081                                                    |
| 2011                           | 4,433                                                      | 4,210                                    | (5,549)                                    | 3,094                                                       |
| 2010                           | 2,677                                                      | 5,941                                    | (4,185)                                    | 4,433                                                       |

**Warranty Costs Incurred**

| <i>(in thousands)</i>          | <b>Materials</b> | <b>Labor and<br/>Overhead</b> | <b>Total</b> |
|--------------------------------|------------------|-------------------------------|--------------|
| <b>Year Ended December 31,</b> |                  |                               |              |
| 2012                           | \$ 2,672         | \$ 3,720                      | \$ 6,392     |
| 2011                           | 2,020            | 3,565                         | 5,585        |
| 2010                           | 1,330            | 2,668                         | 3,998        |

**Note 17 Computation of Net Income per Share**

The Company presents basic and diluted earnings per share ( EPS ) amounts. Basic EPS is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS is calculated by dividing net income available to 3D Systems common stockholders by the weighted average number of common and common equivalent shares outstanding during the applicable period. The following table is a reconciliation of the numerator and denominator of the basic and diluted income per share computations for the years ended December 31, 2012, 2011 and 2010:

## Table of Contents

| <i>(in thousands, except per share amounts)</i>                                                    | 2012      | 2011      | 2010      |
|----------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| <b>Numerator:</b>                                                                                  |           |           |           |
| Net income numerator for basic net earnings per share                                              | \$ 38,941 | \$ 35,420 | \$ 19,566 |
| Add: Effect of dilutive securities                                                                 |           |           |           |
| Interest expense on 5.50% convertible notes (after-tax) <sup>(1)</sup>                             |           |           |           |
| Stock options and other equity compensation                                                        |           |           |           |
| Numerator for diluted earnings per share                                                           | \$ 38,941 | \$ 35,420 | \$ 19,566 |
| <b>Denominator:</b>                                                                                |           |           |           |
| Weighted average shares denominator for basic net earnings per share                               | 53,878    | 49,748    | 46,168    |
| Add: Effect of dilutive securities                                                                 |           |           |           |
| Stock options and other equity compensation                                                        | 604       | 975       | 760       |
| 5.50% convertible notes (after-tax) <sup>(1)</sup>                                                 |           |           |           |
| Denominator for diluted earnings per share                                                         | 54,482    | 50,723    | 46,928    |
| <b>Earnings per share</b>                                                                          |           |           |           |
| Basic                                                                                              | \$ 0.72   | \$ 0.71   | \$ 0.42   |
| Diluted                                                                                            | \$ 0.71   | \$ 0.70   | \$ 0.42   |
| Interest expense excluded from diluted earnings per share calculation <sup>(1)</sup>               | \$ 9,002  | \$ 906    |           |
| 5.50% Convertible notes shares excluded from diluted earnings per share calculation <sup>(1)</sup> | 5,957     | 7,084     |           |

- <sup>(1)</sup> Average outstanding diluted earnings per share calculation for 2012 excludes shares that may be issued upon conversion of the outstanding senior convertible notes since the effect of their inclusion would have been anti-dilutive. The average outstanding diluted shares calculation for 2011 excludes shares for that may be issued upon conversion of the outstanding senior convertible notes because their conversion price exceeded the market price of the shares at December 31, 2011.

### Note 18 Supplemental Cash Flow Information

| <i>(in thousands)</i>                                                         | 2012     | 2011     | 2010   |
|-------------------------------------------------------------------------------|----------|----------|--------|
| Interest payments                                                             | \$ 9,113 | \$ 1,188 | \$ 589 |
| Income tax payments                                                           | 3,506    | 1,523    | 711    |
| <b>Non-cash items:</b>                                                        |          |          |        |
| Transfer of equipment from inventory to property and equipment <sup>(a)</sup> | 4,057    | 3,714    | 2,484  |
| Transfer of equipment to inventory from property and equipment <sup>(b)</sup> | 1,924    | 1,068    | 265    |
| Reduction in tax payable from exercised stock options and restricted stock    | 1,518    |          |        |
| Issuance of stock for acquisition of businesses                               | 7,672    | 3,042    | 5,895  |
| Issuance of stock for 5.50% convertible notes                                 | 60,082   |          |        |

- <sup>(a)</sup> Inventory is transferred from inventory to property and equipment at cost when the Company requires additional machines for training, demonstration, short-term rentals and use in its on-demand parts services.
- <sup>(b)</sup> In general, an asset is transferred from property and equipment 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.

**Table of Contents****Note 19 Fair Value Measurements**

ASC 820, Fair Value Measurements and Disclosures, 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 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 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; or

*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, convertible senior notes 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:

| (in thousands)                  | Fair Value Measurements as of: |         |         |            |                   |         |         |            |
|---------------------------------|--------------------------------|---------|---------|------------|-------------------|---------|---------|------------|
|                                 | December 31, 2012              |         |         |            | December 31, 2011 |         |         |            |
| Description                     | Level 1                        | Level 2 | Level 3 | Total      | Level 1           | Level 2 | Level 3 | Total      |
| Cash equivalents <sup>(1)</sup> | \$ 101,906                     | \$      | \$      | \$ 101,906 | \$ 143,881        | \$      | \$      | \$ 143,881 |

<sup>(1)</sup> 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 the 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 year ended December 31, 2012.

In addition to the financial assets and liabilities included above, certain of our non-financial assets and liabilities are to be initially 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 and liabilities 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 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 December 31, 2012 and 2011.

**Note 20 Income Taxes**

The components of the Company's income before income taxes are as follows:

| (in thousands)              | 2012      | 2011      | 2010      |
|-----------------------------|-----------|-----------|-----------|
| Income before income taxes: |           |           |           |
| Domestic                    | \$ 34,105 | \$ 25,057 | \$ 15,273 |
| Foreign                     | 9,174     | 7,389     | 4,466     |

## Edgar Filing: 3D SYSTEMS CORP - Form 10-K

|       |           |           |           |
|-------|-----------|-----------|-----------|
| Total | \$ 43,279 | \$ 32,446 | \$ 19,739 |
|-------|-----------|-----------|-----------|

F-36

## Table of Contents

The components of income tax provision for the years ended December 31, 2012, 2011 and 2010 are as follows:

| <i>(in thousands)</i>      | 2012     | 2011       | 2010    |
|----------------------------|----------|------------|---------|
| Current:                   |          |            |         |
| U.S. federal               | \$ 441   | \$         | \$ (81) |
| State                      | 1,031    | 367        | 123     |
| Foreign                    | 3,527    | 1,799      | 1,366   |
| Total                      | 4,999    | 2,166      | 1,408   |
| Deferred:                  |          |            |         |
| U.S. federal               | 869      | (4,727)    | (1,050) |
| State                      | (798)    | (189)      | (82)    |
| Foreign                    | (732)    | (224)      | (103)   |
| Total                      | (661)    | (5,140)    | (1,235) |
| Total income tax provision | \$ 4,338 | \$ (2,974) | \$ 173  |

The overall effective tax rate differs from the statutory federal tax rate for the years ended December 31, 2012, 2011 and 2010 as follows:

|                                                                        | % of Pretax Income |        |        |
|------------------------------------------------------------------------|--------------------|--------|--------|
|                                                                        | 2012               | 2011   | 2010   |
| Tax provision based on the federal statutory rate                      | 35.0%              | 35.0%  | 35.0%  |
| Release of valuation allowances                                        | (12.4)             | (19.2) | (5.9)  |
| Use of non-operating losses against U.S. taxable income, taxes         | (14.6)             | (24.8) | (33.0) |
| Deemed income related to foreign operations                            | 0.1                | 0.7    | 2.8    |
| Income not subject to tax                                              |                    | (2.0)  |        |
| State taxes, net of federal benefit, before valuation allowance        | 2.3                | 1.3    | 2.8    |
| Return to provision adjustments, foreign current and deferred balances | 0.5                | (0.7)  | 0.4    |
| Foreign income tax rate differential                                   | (0.7)              | (0.6)  | (2.3)  |
| Other                                                                  | (0.2)              | 1.1    | 1.1    |
| Effective tax rate                                                     | 10.0%              | (9.2)% | 0.9%   |

The difference between the Company's effective tax rate for 2012 and the federal statutory rate resulted primarily from changes in valuation allowances. These comprised:

The release of valuation allowances against certain U.S. deferred tax assets. This release was based upon the Company's recent results of operations. The Company concluded, during the fourth quarter of 2012, that it is more likely than not that a portion of its current U.S. deferred tax assets will be realized. As a result, in accordance with ASC 740, the Company reversed valuation allowance related to \$12,388 of reserves, accruals and tax credits and to \$7,602 of net operating loss carryforwards for state income tax purposes. This resulted in a non-cash income tax benefit of \$5,372.

Other changes in valuation allowances are a result of utilizing U.S. loss carryforwards, which had had a full valuation allowance against them, to eliminate all federal and most state income tax expense otherwise arising.

## Table of Contents

The difference between the Company's effective tax rate for 2011 and the federal statutory rate resulted primarily from changes in valuation allowances. These comprised:

The release of valuation allowances against certain U.S. deferred tax assets. This release was based upon the Company's recent results of operations. The Company concluded, during the second quarter of 2011, that it is more likely than not that a portion of its net U.S. deferred tax assets will be realized. As a result, in accordance with ASC 740, \$17,000 of the valuation allowance applied to such net deferred tax assets was reversed. This reversal resulted in a non-cash income tax benefit of \$6,221.

Other changes in valuation allowances are a result of utilizing U.S. loss carryforwards, which had had a full valuation allowance against them, to eliminate all federal and most state income tax expense otherwise arising.

The difference between the Company's effective tax rate for 2010 and the federal statutory rate resulted primarily from changes in valuation allowances. These comprised:

The release of valuation allowances against certain U.S. deferred tax assets. This release was based upon the Company's recent results of operations and its expected profitability in future years. The Company concluded, during the fourth quarter of 2010, that it is more likely than not that a portion of its net U.S. deferred tax assets will be realized. As a result, in accordance with ASC 740, the Company reversed the valuation allowance related to \$3,000 of net operating loss carryforwards. This reversal resulted in a non-cash income tax benefit of \$1,162.

Other changes in valuation allowances as a result of utilizing U.S. loss carryforwards, which had had a full valuation allowance against them, to eliminate all federal and most state income tax expense otherwise arising.

In 2012, the Company's valuation allowance against net deferred income tax assets decreased by \$8,781. This decrease consisted of an \$8,781 decrease against the U.S. deferred income tax assets. The decrease in the valuation allowance against the net U.S. deferred income tax assets resulted primarily from the increase in the Company's domestic net operating income, an increase in the amount of deferred income tax liabilities and from the release of valuation allowances against U.S. net deferred tax assets.

In 2011, the Company's valuation allowance against net deferred income tax assets decreased by \$25,892. This decrease consisted of a \$25,892 decrease against the U.S. deferred income tax assets. The decrease in the valuation allowance against the net U.S. deferred income tax assets resulted primarily from the increase in the Company's domestic net operating income, an increase in the amount of net operating loss carryforwards for state income tax purposes.

In 2010, the Company's valuation allowance against net deferred income tax assets decreased by \$4,054. This decrease consisted of a \$4,059 decrease against the U.S. deferred income tax assets and a \$5 increase against foreign deferred income tax assets. The decrease in the valuation allowance against the net U.S. deferred income tax assets resulted primarily from the increase in the Company's domestic net operating income and from the release of a portion of the valuation allowances against U.S. net deferred tax assets.

The components of the Company's net deferred income tax assets and net deferred income tax liabilities at December 31, 2012 and 2011 are as follows:

| <i>(in thousands)</i>            | 2012     | 2011     |
|----------------------------------|----------|----------|
| Deferred income tax assets:      |          |          |
| Tax credit carryforwards         | \$ 3,390 | \$ 6,436 |
| Net operating loss carryforwards | 1,949    | 17,829   |
| Reserves and allowances          | 4,706    | 3,501    |
| Stock options and awards         | 3,701    | 2,701    |
| Deferred lease revenue           | 280      | 79       |

Edgar Filing: 3D SYSTEMS CORP - Form 10-K

|                                              |             |          |
|----------------------------------------------|-------------|----------|
| Gross deferred income tax assets             | 14,026      | 30,546   |
| Valuation allowances                         |             | (8,781)  |
| Total deferred income tax assets             | 14,026      | 21,765   |
| Deferred income tax liabilities              |             |          |
| Senior convertible notes                     | 3,933       | 7,200    |
| Intangibles                                  | 27,041      | 10,519   |
| Property, plant and equipment                | 90          | 531      |
| Accrued liabilities                          | 130         | 448      |
| Total deferred income tax liabilities        | 31,194      | 18,698   |
| Net deferred income tax assets (liabilities) | \$ (17,168) | \$ 3,067 |

F-38

## **Table of Contents**

The Company's net deferred income tax assets (liabilities) include both current and noncurrent amounts. Accrued liabilities and deferred lease revenue are classified as current. Portions of reserves and allowances, tax credit carryforwards, net operating loss carryforwards and valuation allowances that would be available within the next year are classified as current, with the remainder of the balance classified as noncurrent. Stock option awards, property, plant and equipment, the senior convertible notes and intangibles are also classified as noncurrent.

The Company accounts for income taxes in accordance with ASC 740. Under ASC 740, deferred income tax assets and liabilities are determined based on the differences between financial statement and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. The provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates.

At December 31, 2012, \$1,949 of the Company's deferred income tax assets was attributable to \$42,202 of net operating loss carryforwards, which consisted of no loss carryforwards for U.S. federal income tax purposes, \$41,047 of loss carryforwards for U.S. state income tax purposes and \$1,155 of loss carryforwards for foreign income tax purposes.

At December 31, 2011, \$17,829 of the Company's deferred income tax assets was attributable to \$88,884 of net operating loss carryforwards, which consisted of \$44,255 of loss carryforwards for U.S. federal income tax purposes, \$44,196 of loss carryforwards for U.S. state income tax purposes and \$433 of loss carryforwards for foreign income tax purposes.

The federal net operating loss carryforwards set forth above exclude deductions for the exercise of stock options. The net operating loss attributable to the excess of the tax deduction for the exercise of the stock options over the cumulative expense that would be recorded under ASC 718 in the financial statements is not recorded as a deferred income tax asset. The benefit of the excess deduction of \$61,035 will be recorded to additional paid-in capital when the Company realizes a reduction in its current taxes payable. The Company recorded \$1,513 to additional paid-in capital during 2012.

The net operating loss carryforwards for U.S. state income tax purposes begin to expire in 2013. In addition, certain loss carryforwards for foreign income tax purposes begin to expire in 2018 and certain other loss carryforwards for foreign purposes do not expire. Ultimate utilization of these loss carryforwards depends on future taxable earnings of the Company and its subsidiaries.

At December 31, 2012, tax credit carryforwards included in the Company's deferred income tax assets consisted of \$735 of research and experimentation tax credit carryforwards for U.S. federal income tax purposes, \$2,040 of such tax credit carryforwards for U.S. state income tax purposes and \$615 of other state tax credits. The state research and experimentation credits do not expire; the other federal and state credits begin to expire in 2017.

At December 31, 2011, tax credit carryforwards included in the Company's deferred income tax assets consisted of \$3,307 of research and experimentation tax credit carryforwards for U.S. federal income tax purposes, \$2,040 of such tax credit carryforwards for U.S. state income tax purposes, \$474 of alternative minimum tax credit carryforwards for U.S. federal income tax purposes and \$615 of other state tax credits.



## Table of Contents

The Company has not provided for any taxes on approximately \$13,339 of unremitted earnings of its foreign subsidiaries, as the Company intends to permanently reinvest all such earnings outside of the U.S.

The Company decreased its ASC 740 (formerly FIN 48) reserve by \$298 for the year ended December 31, 2012 and decreased this reserve by \$12 for the year ended December 31, 2011. The Company decreased its unrecognized benefits by \$82 for the year ended December 31, 2012 and increased these benefits by \$36 for the year ended December 31, 2011. The Company does not anticipate any additional unrecognized tax benefits during the next twelve months that would result in a material change to its consolidated financial position.

| (in thousands)                                                                      | Unrecognized Tax Benefits |          |          |
|-------------------------------------------------------------------------------------|---------------------------|----------|----------|
|                                                                                     | 2012                      | 2011     | 2010     |
| Balance at January 1                                                                | \$ (393)                  | \$ (429) | \$ (352) |
| Increases related to prior year tax positions                                       | 300                       | 28       | 19       |
| Decreases related to prior year tax positions                                       | (378)                     | (2)      | (149)    |
| Increases related to current year tax positions                                     |                           |          | 72       |
| Decreases related to current year tax positions                                     | (4)                       |          | (3)      |
| Decreases in unrecognized liability due to settlements with foreign tax authorities |                           | 10       | (16)     |
| Balance at December 31                                                              | \$ (475)                  | \$ (393) | \$ (429) |

The Company includes interest and penalties accrued in the consolidated financial statements as a component of income tax expense.

The principal tax jurisdictions in which the Company files income tax returns are the United States, France, Germany, Japan, Korea, India, Italy, Switzerland, Australia, the Netherlands and the United Kingdom. Tax years 2009 through 2012 remain subject to examination by the U.S. Internal Revenue Service. The Company has utilized a portion of its U.S. loss carryforwards causing the years from 1997 through 2007 to be subject to examination. The Company's non-U.S. subsidiaries' tax returns are open to possible examination beginning in the year shown in parentheses in the following countries: France (2005), Germany (2007), Japan (2006), Italy (2007), Switzerland (2006), the United Kingdom (2008), the Netherlands (2007), Australia (2008) and Korea (2007).

## Note 21 Segment Information

The Company operates in one reportable business segment in which it develops, manufactures and markets worldwide 3D printing, rapid prototyping and manufacturing printers and parts solutions, which produce three-dimensional objects more quickly than traditional manufacturing. The Company conducts its business through subsidiaries in the U.S., a subsidiary in Switzerland that operates a research and production facility and sales and service offices operated by subsidiaries in Europe (France, Germany, Italy, the Netherlands, Switzerland and the United Kingdom) and in Asia Pacific (Australia, China, India, Korea and Japan). 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.

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

| (in thousands)                       | 2012       | 2011       | 2010       |
|--------------------------------------|------------|------------|------------|
| Revenue from unaffiliated customers: |            |            |            |
| United States                        | \$ 196,414 | \$ 117,739 | \$ 72,452  |
| Germany                              | 39,748     | 34,978     | 27,097     |
| Other Europe                         | 60,939     | 48,346     | 38,442     |
| Asia Pacific                         | 56,532     | 29,360     | 21,877     |
| Total                                | \$ 353,633 | \$ 230,423 | \$ 159,868 |

## Table of Contents

The Company's revenue from unaffiliated customers by type is as follows:

| <i>(in thousands)</i>       | 2012       | 2011       | 2010       |
|-----------------------------|------------|------------|------------|
| Printers and other products | \$ 126,798 | \$ 66,665  | \$ 54,686  |
| Materials                   | 103,182    | 70,641     | 58,431     |
| Services                    | 123,653    | 93,117     | 46,751     |
| Total revenue               | \$ 353,633 | \$ 230,423 | \$ 159,868 |

Intercompany sales were as follows:

| <i>(in thousands)</i> | Year Ended December 31, 2012<br>Intercompany Sales to |          |              |              | Total     |
|-----------------------|-------------------------------------------------------|----------|--------------|--------------|-----------|
|                       | United States                                         | Germany  | Other Europe | Asia Pacific |           |
| United States         | \$                                                    | \$ 6,823 | \$ 4,153     | \$ 1,044     | \$ 12,020 |
| Germany               | 197                                                   |          | 2,205        |              | 2,402     |
| Other Europe          | 4,812                                                 | 26       | 255          | 38           | 5,131     |
| Asia Pacific          | 195                                                   |          |              |              | 195       |
| Total                 | \$ 5,204                                              | \$ 6,849 | \$ 6,613     | \$ 1,082     | \$ 19,748 |

| <i>(in thousands)</i> | Year Ended December 31, 2011<br>Intercompany Sales to |           |              |              | Total     |
|-----------------------|-------------------------------------------------------|-----------|--------------|--------------|-----------|
|                       | United States                                         | Germany   | Other Europe | Asia Pacific |           |
| United States         | \$                                                    | \$ 17,634 | \$ 10,213    | \$ 3,984     | \$ 31,831 |
| Germany               | 372                                                   |           | 3,523        |              | 3,895     |
| Other Europe          | 13,388                                                | 9         | 118          |              | 13,515    |
| Asia Pacific          | 18                                                    | 4         |              |              | 22        |
| Total                 | \$ 13,778                                             | \$ 17,647 | \$ 13,854    | \$ 3,984     | \$ 49,263 |

| <i>(in thousands)</i> | Year Ended December 31, 2010<br>Intercompany Sales to |           |              |              | Total     |
|-----------------------|-------------------------------------------------------|-----------|--------------|--------------|-----------|
|                       | United States                                         | Germany   | Other Europe | Asia Pacific |           |
| United States         | \$                                                    | \$ 14,862 | \$ 11,266    | \$ 2,499     | \$ 28,627 |
| Germany               | 266                                                   |           | 4,094        |              | 4,360     |
| Other Europe          | 9,240                                                 | 75        | 208          |              | 9,523     |
| Asia Pacific          | 34                                                    |           |              |              | 34        |
| Total                 | \$ 9,540                                              | \$ 14,937 | \$ 15,568    | \$ 2,499     | \$ 42,544 |

**Table of Contents**

Income from operations was as follows:

| <i>(in thousands)</i>     | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|---------------------------|-------------|-------------|-------------|
| Income from operations:   |             |             |             |
| United States             | \$ 37,743   | \$ 19,045   | \$ 10,946   |
| Germany                   | 1,305       | 1,509       | 935         |
| Other Europe              | 5,415       | 6,645       | 1,935       |
| Asia Pacific              | 16,528      | 7,152       | 6,356       |
| Subtotal                  | 60,991      | 34,351      | 20,172      |
| Inter-segment elimination | (420)       | 551         | 748         |
| Total                     | \$ 60,571   | \$ 34,902   | \$ 20,920   |

| <i>(in thousands)</i> | <b>2012</b> | <b>2011</b> |
|-----------------------|-------------|-------------|
| Assets:               |             |             |
| United States         | \$ 501,157  | \$ 346,350  |
| Germany               | 24,264      | 20,285      |
| Other Europe          | 86,494      | 71,202      |
| Asia Pacific          | 65,527      | 25,137      |
| Total                 | \$ 677,442  | \$ 462,974  |

| <i>(in thousands)</i>          | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|--------------------------------|-------------|-------------|-------------|
| Depreciation and amortization: |             |             |             |
| United States                  | \$ 17,049   | \$ 7,666    | \$ 6,031    |
| Germany                        | 178         | 234         | 327         |
| Other Europe                   | 2,983       | 2,475       | 1,004       |
| Asia Pacific                   | 1,019       | 718         | 158         |
| Subtotal                       | \$ 21,229   | \$ 11,093   | \$ 7,520    |

| <i>(in thousands)</i> | <b>2012</b> | <b>2011</b> |
|-----------------------|-------------|-------------|
| Long-lived assets:    |             |             |
| United States         | \$ 278,590  | \$ 128,646  |
| Germany               | 10,142      | 9,279       |
| Other Europe          | 51,029      | 47,495      |
| Asia Pacific          | 50,243      | 16,174      |
| Total                 | \$ 390,004  | \$ 201,594  |

| <i>(in thousands)</i> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|-----------------------|-------------|-------------|-------------|
| Capital expenditures: |             |             |             |
| United States         | \$ 2,177    | \$ 1,964    | \$ 671      |

# Edgar Filing: 3D SYSTEMS CORP - Form 10-K

|              |          |          |          |
|--------------|----------|----------|----------|
| Germany      | 49       | 6        | 8        |
| Other Europe | 857      | 896      | 586      |
| Asia Pacific | 141      | 4        | 18       |
| Subtotal     | \$ 3,224 | \$ 2,870 | \$ 1,283 |

F-42

## **Table of Contents**

### **Note 22 Commitments and Contingencies**

The Company leases office space and certain furniture and fixtures under various non-cancelable operating leases. Rent expense under operating leases was \$4,968, \$2,738 and \$1,977 for 2012, 2011 and 2010, respectively.

As of December 31, 2012, the Company has supply commitments with third party assemblers for printer assemblies for the first quarter of 2013 that total \$10,894 compared to \$10,940 at December 31, 2011.

For certain of the recent acquisitions, the Company is obligated to pay deferred purchase price totaling \$1,465, due in 2013, based upon the exchange rates at the dates of acquisitions. In addition, certain of the agreements contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total liabilities recorded for these earnouts as of December 31, 2012 was \$2,647 compared to \$1,862 at December 31, 2011. See Note 3 for details of acquisitions and related commitments.

### *Indemnification*

In the normal course of business the Company periodically enters into agreements to indemnify customers or suppliers against claims of intellectual property infringement made by third parties arising from the use of the Company's products. Historically, costs related to these indemnification provisions have not been significant and the Company is unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, the Company indemnifies directors and officers for certain events or occurrences while the director or officer is, or was serving, at the Company's request in such capacity, subject to limited exceptions. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has directors and officers insurance coverage that may enable the Company to recover future amounts paid, subject to a deductible and the policy limits. There is no assurance that the policy limits will be sufficient to cover all damages, if any.

### *Litigation*

In 2008, DSM Desotech Inc. filed a complaint, which it has subsequently amended, in an action titled *DSM Desotech Inc. v. 3D Systems Corporation and 3D Systems, Inc.* 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 certain of its stereolithography machines. The complaint further asserted that the Company is infringing upon two of DSM Desotech's patents relating to stereolithography machines.

The Company filed answers to DSM Desotech's complaint in which, among other things, the Company denied the material allegations of DSM Desotech's complaint. Discovery regarding the claims pending in this case concluded in 2011. The Company filed motions for summary judgment in December 2011 that sought rulings in its favor on all of DSM Desotech's claims in the litigation. On January 31, 2013, the Court granted the Company summary judgment for all seven of the counts alleging anticompetitive behavior. The Court granted in part and denied in part summary judgment for one count of alleged tortious interference with contractual relations and did not grant summary judgment for the one count of alleged patent infringement. A trial for the two remaining counts is scheduled for April 2013.

## Table of Contents

The Company understands that DSM Desotech estimates the remaining damages associated with its claims to be in excess of \$8,000. The Company intends to continue to vigorously contest all the claims asserted by DSM Desotech.

On November 20, 2012, the Company filed a complaint in an action titled *3D Systems, Inc. v. Formlabs, Inc. and Kickstarter, Inc.* in the United States District Court for the District of South Carolina (Rock Hill Division) asserting that Formlabs and Kickstarter's sales of the Form 1 3D printer infringed one of the Company's patents relating to stereolithography machines. The Company intends to pursue claims for damages against Formlabs and Kickstarter.

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

### Note 23 Selected Quarterly Financial Data (unaudited)

The following tables set forth unaudited selected quarterly financial data:

|                                                 | Quarter Ended        |                       |                  |                   |
|-------------------------------------------------|----------------------|-----------------------|------------------|-------------------|
|                                                 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 | March 31,<br>2012 |
| <i>(in thousands, except per share amounts)</i> |                      |                       |                  |                   |
| Consolidated revenue                            | \$ 101,571           | \$ 90,532             | \$ 83,610        | \$ 77,920         |
| Gross profit                                    | 52,496               | 46,879                | 42,968           | 38,853            |
| Total operating expenses                        | 34,330               | 28,443                | 28,969           | 28,883            |
| Income from operations                          | 18,166               | 18,436                | 13,999           | 9,970             |
| Income tax expense (benefit)                    | (1,449)              | 2,752                 | 1,935            | 1,100             |
| Net income                                      | \$ 10,912            | \$ 13,517             | \$ 8,324         | \$ 6,188          |
| Basic net income per share                      | \$ 0.19              | \$ 0.24               | \$ 0.16          | \$ 0.12           |
| Diluted net income per share                    | \$ 0.19              | \$ 0.24               | \$ 0.16          | \$ 0.12           |

|                                                 | Quarter Ended        |                       |                  |                   |
|-------------------------------------------------|----------------------|-----------------------|------------------|-------------------|
|                                                 | December 31,<br>2011 | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 |
| <i>(in thousands, except per share amounts)</i> |                      |                       |                  |                   |
| Consolidated revenue                            | \$ 69,861            | \$ 57,538             | \$ 55,128        | \$ 47,896         |
| Gross profit                                    | 32,865               | 27,763                | 25,203           | 23,197            |
| Total operating expenses                        | 22,166               | 18,972                | 17,202           | 15,786            |
| Income from operations                          | 10,699               | 8,791                 | 8,001            | 7,411             |
| Income tax expense (benefit)                    | 703                  | 917                   | (5,479)          | 885               |
| Net income                                      | \$ 8,005             | \$ 7,220              | \$ 13,373        | \$ 6,822          |
| Basic net income per share                      | \$ 0.16              | \$ 0.14               | \$ 0.27          | \$ 0.14           |
| Diluted net income per share                    | \$ 0.16              | \$ 0.14               | \$ 0.26          | \$ 0.14           |

The sum of per share amounts for each of the quarterly periods presented does not necessarily equal the total presented for the year because each quarterly amount is independently calculated at the end of each period based on the net income available to common stockholders for such period and the weighted average shares of outstanding common stock for such period.

## **Table of Contents**

### **Note 24 Subsequent Events**

On January 3, 2013, the Company signed a definitive agreement to acquire Geomagic, Inc., a leading global provider of 3D authoring solutions including design, sculpt and scan software tools that are used to create 3D content and inspect products throughout the entire design and manufacturing process. Future revenue from this acquisition will be reported within the printers and other products revenue line. The transaction is subject to customary closing conditions and the Company expects to close by the end of February, 2013. Terms of the transaction were not disclosed. See Note 3.

On January 10, 2013, the Company acquired COWEB, located in Paris, France. COWEB is a start-up that creates consumer customized 3D printed products and collectibles. Due to the timing of this acquisition, the Company is in the process of allocating the fair values of the assets purchased, liabilities assumed and other intangibles identified as of the acquisition date, with any excess to be recorded as goodwill. The Company plans to integrate COWEB into its Cubify consumer solutions and future revenue from this acquisition will be reported in services revenue. The COWEB acquisition is not significant to the Company's financial statements. See Note 3.

From January 1, 2013 through February 15, 2013, note holders have converted \$34,620 aggregate principal amount of notes, which converted into 1,613 shares of common stock. The Company expects to recognize a loss of \$4,792 on conversion of these notes in other expense, net during the first quarter of 2013. As of February 15, 2013, the aggregate principal amount of notes outstanding was \$56,340, and the Company expects annual interest for the years 2013 through 2016 to be approximately \$5,250 per year. See Note 11.

In relation to the ongoing *DSM Desotech Inc. v. 3D Systems Corporation and 3D Systems, Inc.* litigation, on January 31, 2013, the Court granted the Company summary judgment for all seven of the counts alleging anticompetitive behavior. The Court granted in part and denied in part summary judgment for one count of alleged tortious interference with contractual relations and did not grant summary judgment for the one count of alleged patent infringement. A trial for the two remaining counts is scheduled for April 2013. See Note 22.

On February 5, 2013, the Company announced that its Board of Directors declared a three-for-two split of the Company's common stock in the nature of a 50% stock dividend. On February 22, 2013, each stockholder of record at the close of business on February 15, 2013 received one additional share for every two shares held on the record date. In lieu of fractional shares, shareholders received a cash payment based on the closing market price of DDD stock on the record date. Trading will begin on a split-adjusted basis on February 25, 2013.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of

3D Systems Corporation

Rock Hill, South Carolina

The audits referred to in our report dated February 25, 2013, relating to the consolidated financial statements of 3D Systems Corporation for the years ended December 31, 2012, 2011 and 2010, which is contained in Item 8 of the Form 10-K, included the audit of the financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based upon our audits.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

BDO USA, LLP

Charlotte, North Carolina

February 25, 2013

F-46



**Table of Contents****SCHEDULE II****3D Systems Corporation****Valuation and Qualifying Accounts****Years ended December 31, 2012, 2011 and 2010**

| <b>Year Ended</b> | <b>Item</b>                                                 | <b>Balance at beginning of year</b> | <b>Additions charged/ (credited) to expense</b> | <b>Charged to other accounts</b> | <b>Deductions/ other</b> | <b>Balance at end of year</b> |
|-------------------|-------------------------------------------------------------|-------------------------------------|-------------------------------------------------|----------------------------------|--------------------------|-------------------------------|
| 2012              | Allowance for doubtful accounts                             | \$ 3,019                            | \$ 3,039                                        | \$ (541)                         | \$ (1,200)               | \$ 4,317                      |
| 2011              | Allowance for doubtful accounts                             | 2,017                               | 1,731                                           | 83                               | (812)                    | 3,019                         |
| 2010              | Allowance for doubtful accounts                             | 1,790                               | 328                                             |                                  | (101)                    | 2,017                         |
| 2012              | Reserve for excess and obsolete inventory                   | \$ 2,542                            | \$ 777                                          | \$                               | \$ 215                   | \$ 3,534                      |
| 2011              | Reserve for excess and obsolete inventory                   | 2,205                               | 431                                             |                                  | (94)                     | 2,542                         |
| 2010              | Reserve for excess and obsolete inventory                   | 2,693                               | (364)                                           |                                  | (124)                    | 2,205                         |
| 2012              | Deferred income tax asset allowance accounts <sup>(1)</sup> | \$ 8,781                            | \$ 11,146                                       | \$                               | \$ (19,927)              | \$                            |
| 2011              | Deferred income tax asset allowance accounts <sup>(1)</sup> | 34,673                              | 2,318                                           |                                  | (28,210)                 | 8,781                         |
| 2010              | Deferred income tax asset allowance accounts <sup>(1)</sup> | 38,727                              | 6,266                                           |                                  | (10,320)                 | 34,673                        |

<sup>(1)</sup> Additions represent increases in valuation allowances against deferred tax assets; deductions represent decreases in valuation allowances against deferred tax assets.