

3D SYSTEMS CORP  
Form 10-Q  
May 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10 Q

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

For the quarterly period ended March 31, 2015

OR

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

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

Commission File No. 001-34220

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3D SYSTEMS CORPORATION

(Exact name of Registrant as specified in its Charter)

\_\_\_\_\_

|   |   |
|---|---|
| DELAWARE  | 95 4431352                              |
| (State or Other Jurisdiction of<br>Incorporation or Organization) | (I.R.S. Employer<br>Identification No.) |
| 333 THREE D SYSTEMS CIRCLE  |   |
| ROCK HILL, SOUTH CAROLINA   | 29730                                   |
| (Address of Principal Executive Offices)                          | (Zip Code)                              |

(Registrant's Telephone Number, Including Area Code): (803) 326 3900

\_\_\_\_\_

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Shares of Common Stock, par value \$0.001, outstanding as of April 29, 2015: 111,797,093

3D SYSTEMS CORPORATION

Quarterly Report on Form 10-Q for the

Quarter Ended March 31, 2015

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## PART I. — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (in thousands, except par value)   | March 31,<br>2015 | December<br>31,<br>2014 |
|--|-------------------|-------------------------|
| <b>ASSETS</b>  |                   |                         |
| Current assets:  |                   |                         |
| Cash and cash equivalents  | \$ 199,896        | \$ 284,862              |
| Accounts receivable, net of allowance for doubtful accounts of \$13,275 (2015) and \$10,300 (2014) | 153,107           | 168,441                 |
| Inventories, net   | 114,602           | 96,645                  |
| Prepaid expenses and other current assets  | 21,247            | 15,769                  |
| Current deferred income tax asset  | 18,755            | 14,973                  |
| Total current assets   | 507,607           | 580,690                 |
| Property and equipment, net  | 82,737            | 81,881                  |
| Intangible assets, net   | 293,481           | 251,561                 |
| Goodwill   | 607,570           | 589,537                 |
| Long term deferred income tax asset  | 878               | 816                     |
| Other assets, net  | 21,154            | 21,485                  |
| Total assets   | \$ 1,513,427      | \$ 1,525,970            |
| <b>LIABILITIES AND EQUITY</b>  |                   |                         |
| Current liabilities:   |                   |                         |
| Current portion of debt and capitalized lease obligations  | \$ 563            | \$ 684                  |
| Accounts payable   | 58,717            | 64,378                  |
| Accrued and other liabilities  | 54,426            | 44,219                  |
| Customer deposits  | 7,898             | 6,946                   |
| Deferred revenue   | 37,769            | 32,264                  |
| Total current liabilities  | 159,373           | 148,491                 |
| Long term portion of capitalized lease obligations   | 8,581             | 8,905                   |
| Long term deferred income tax liability  | 31,388            | 30,679                  |
| Other liabilities  | 33,756            | 34,898                  |

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|  |              |              |
|--|--------------|--------------|
| Total liabilities  | 233,098      | 222,973      |
| Redeemable noncontrolling interests  | 8,872        | 8,872        |
| Stockholders' equity:  |              |              |
| Common stock, \$0.001 par value, authorized 220,000 shares; issued 112,301 (2015) and 112,233 (2014) | 112          | 112          |
| Additional paid-in capital   | 1,256,452    | 1,245,462    |
| Treasury stock, at cost: 421 shares (2015) and 709 shares (2014)                                     | (228)        | (374)        |
| Accumulated earnings   | 58,943       | 72,124       |
| Accumulated other comprehensive loss   | (44,973)     | (24,406)     |
| Total 3D Systems Corporation stockholders' equity  | 1,270,306    | 1,292,918    |
| Noncontrolling interests   | 1,151        | 1,207        |
| Total stockholders' equity   | 1,271,457    | 1,294,125    |
| Total liabilities, redeemable noncontrolling interests and stockholders' equity                      | \$ 1,513,427 | \$ 1,525,970 |

See accompanying notes to condensed consolidated financial statements.

## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

| (in thousands, except per share amounts)   | Quarter Ended March |            |
|--|---------------------|------------|
|  | 31,<br>2015         | 2014       |
| Revenue:   |                     |            |
| Products   | \$ 99,822           | \$ 101,194 |
| Services   | 60,900              | 46,564     |
| Total revenue  | 160,722             | 147,758    |
| Cost of sales:   |                     |            |
| Products   | 50,476              | 46,816     |
| Services   | 31,262              | 25,470     |
| Total cost of sales  | 81,738              | 72,286     |
| Gross profit   | 78,984              | 75,472     |
| Operating expenses:  |                     |            |
| Selling, general and administrative  | 74,292              | 48,720     |
| Research and development   | 22,216              | 17,235     |
| Total operating expenses   | 96,508              | 65,955     |
| Income (loss) from operations  | (17,524)            | 9,517      |
| Interest and other expense, net  | 2,567               | 1,048      |
| Income (loss) before income taxes  | (20,091)            | 8,469      |
| Provision (benefit) for income taxes   | (6,943)             | 3,559      |
| Net income (loss)  | (13,148)            | 4,910      |
| Less net income attributable to noncontrolling interests                               | 33                  | 33         |
| Net income (loss) attributable to 3D Systems Corporation                               | \$ (13,181)         | \$ 4,877   |
| Other comprehensive income (loss):   |                     |            |
| Pension adjustments, net of taxes  | \$ 265              | \$ 19      |
| Foreign currency translation loss  | (20,957)            | (13)       |
| Other comprehensive income (loss)  | (20,692)            | 6          |
| Less foreign currency translation gain (loss) attributable to noncontrolling interests | (125)               | 26         |
| Other comprehensive loss attributable to 3D Systems Corporation                        | (20,567)            | (20)       |
| Comprehensive income (loss)  | (33,840)            | 4,916      |
| Less comprehensive income (loss) attributable to noncontrolling interests              | (92)                | 59         |
| Comprehensive income (loss) attributable to 3D Systems Corporation                     | \$ (33,748)         | \$ 4,857   |

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|  |           |         |
|--|-----------|---------|
| Net income (loss) per share available to 3D Systems Corporation common stockholders —<br>basic and diluted | \$ (0.12) | \$ 0.05 |
|--|-----------|---------|

See accompanying notes to condensed consolidated financial statements.

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## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (in thousands)  | Quarter Ended March |          |
|---|---------------------|----------|
|   | 31,<br>2015         | 2014     |
| Cash flows from operating activities:   |                     |          |
| Net income (loss)   | \$ (13,148)         | \$ 4,910 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: |                     |          |
| Benefit of deferred income taxes  | (10,254)            | (7,610)  |
| Depreciation and amortization   | 19,470              | 12,486   |
| Non-cash interest on convertible notes  | —                   | 95       |
| Provision for bad debts   | 2,881               | 1,341    |
| Stock-based compensation  | 10,329              | 7,276    |
| Loss on the disposition of property and equipment   | 253                 | 286      |
| Changes in operating accounts:  |                     |          |
| Accounts receivable   | 17,986              | (11,402) |
| Inventories   | (20,011)            | (13,034) |
| Prepaid expenses and other current assets   | (2,784)             | (7,375)  |
| Accounts payable  | (5,815)             | 4,267    |
| Accrued and other liabilities   | (4,373)             | 8,273    |
| Customer deposits   | 1,070               | 976      |
| Deferred revenue  | 2,535               | (396)    |
| Other operating assets and liabilities  | 924                 | 215      |
| Net cash provided by (used in) operating activities   | (937)               | 308      |
| Cash flows from investing activities:   |                     |          |
| Purchases of property and equipment   | (3,693)             | (3,551)  |
| Additions to license and patent costs   | (203)               | (210)    |
| Cash paid for acquisitions, net of cash assumed   | (77,984)            | (2,000)  |
| Other investing activities  | (600)               | (100)    |
| Net cash used in investing activities   | (82,480)            | (5,861)  |
| Cash flows from financing activities:   |                     |          |
| Tax benefits from share-based payment arrangements  | 447                 | 5,448    |
| Proceeds from exercise of stock options and restricted stock, net                               | 360                 | 484      |
| Repayment of capital lease obligations  | (176)               | (44)     |
| Net cash provided by financing activities   | 631                 | 5,888    |
| Effect of exchange rate changes on cash   | (2,180)             | 53       |

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|   |            |            |
|---|------------|------------|
| Net increase (decrease) in cash and cash equivalents                    | (84,966)   | 388        |
| Cash and cash equivalents at the beginning of the period                | 284,862    | 306,316    |
| Cash and cash equivalents at the end of the period                      | \$ 199,896 | \$ 306,704 |
| <br>  |            |            |
| Cash interest payments  | \$ 143     | \$ 132     |
| Cash income tax payments  | 1,707      | 2,407      |
| Transfer of equipment from inventory to property and equipment, net (a) | 2,539      | 2,300      |
| Transfer of equipment to inventory from property and equipment, net (b) | 1,822      | 16         |
| Stock issued for acquisitions of businesses                             | —          | 2,000      |

- (a) Inventory is transferred from inventory to property and equipment at cost when the Company requires additional machines for training or demonstration or for placement into Quickparts' locations.
- (b) In general, an asset is transferred from property and equipment, net into inventory at its net book value when the Company has identified a potential sale for a used machine.

See accompanying notes to condensed consolidated financial statements.

## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

|  | Common Stock |                         |                                  | Treasury Stock |          | Accumulated<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total 3D<br>Systems<br>Corporation<br>Stockholders'<br>Equity | Equity<br>Attributable<br>to<br>Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|--|--------------|-------------------------|----------------------------------|----------------|----------|-------------------------|---|---|---|----------------------------------|
|  | Shares       | Par<br>Value<br>\$0.001 | Additional<br>Paid In<br>Capital | Shares         | Amount   |                         |   |   |   |                                  |
| (In thousands,<br>except par<br>value)<br>Balance at<br>December 31,<br>2014 | 112,233      | \$ 112                  | \$ 1,245,462                     | 709            | \$ (374) | \$ 72,124               | \$ (24,406)   | \$ 1,292,918  | \$ 1,207  | \$ 1,294,125                     |
| Tax benefits<br>from<br>share-based<br>payment<br>arrangements               | —            | —                       | 447                              | —              | —        | —                       | —   | 447   | —   | 447                              |
| Issuance<br>(repurchase) of<br>restricted<br>stock, net                      | 286          | —                       | 286                              | 24             | (22)     | —                       | —   | 264   | —   | 264                              |
| Issuance of<br>restricted stock<br>from treasury<br>shares                   | (218)        | —                       | (72)                             | (312)          | 168      | —                       | —   | 96  | —   | 96                               |
| Stock-based<br>compensation<br>expense                                       | —            | —                       | 10,329                           | —              | —        | —                       | —   | 10,329  | —   | 10,329                           |
| Net income<br>(loss)   | —            | —                       | —                                | —              | —        | (13,181)                | —   | (13,181)  | 33  | (13,148)                         |
| Noncontrolling<br>interests for<br>business<br>combinations                  | —            | —                       | —                                | —              | —        | —                       | —   | —   | 36  | 36                               |
|  | —            | —                       | —                                | —              | —        | —                       | 265   | 265   | —   | 265                              |

|   |         |        |              |     |          |           |                |              |          |         |  |
|---|---------|--------|--------------|-----|----------|-----------|----------------|--------------|----------|---------|--|
| Pension adjustment                      |         |        |              |     |          |           |                |              |          |         |  |
| Foreign currency translation adjustment | —       | —      | —            | —   | —        | —         | (20,832)       | (20,832)     | (125)    | (20,9   |  |
| Balance at March 31, 2015               | 112,301 | \$ 112 | \$ 1,256,452 | 421 | \$ (228) | \$ 58,943 | \$ (44,973)(a) | \$ 1,270,306 | \$ 1,151 | \$ 1,27 |  |

(a) Accumulated other comprehensive loss of \$44,973 consists of foreign currency translation loss of \$43,027 and a cumulative unrealized pension loss of \$1,946.

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of 3D Systems Corporation and its subsidiaries (collectively, the “Company”). All significant intercompany transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim reports. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2014.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the quarter ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

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

Certain prior period amounts presented in the condensed consolidated financial statements and accompanying footnotes have been reclassified to conform to current year presentation.

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

## Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently in the process of evaluating the impact of adoption of ASU 2015-03 on its consolidated balance sheets.

No other new accounting pronouncements, issued or effective during the first quarter of 2015, have had or are expected to have a significant impact on the Company’s consolidated financial statements.

## (2) Acquisitions

The Company completed one acquisition in the first quarter of 2015, which is discussed below.

On February 9, 2015, the Company acquired 100% of the outstanding shares and voting rights of Cimatron Ltd. (“Cimatron”), a provider of integrated 3D CAD/CAM software and solutions for manufacturing. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$77,984, all of which was paid in cash. The operations of Cimatron have been integrated into the Company’s products and service revenues. 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 the first quarter 2015 acquisition. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

The acquisition completed in the first quarter is not material relative to the Company’s assets or operating results; therefore, no proforma financial information is provided.

The Company's purchase price allocation for the acquired company is preliminary and subject to revision as more detailed analyses are completed and additional information about the fair value of assets and liabilities becomes available. The amounts related to the acquisition are allocated to the assets acquired and the liabilities assumed and are included in the Company's unaudited condensed consolidated balance sheet at March 31, 2015 as follows:

| (in thousands)                     | 2015      |
|------------------------------------|-----------|
| Fixed assets                       | \$ 287    |
| Other intangible assets, net       | 50,700    |
| Goodwill                           | 37,580    |
| Other assets, net of cash acquired | 17,040    |
| Liabilities                        | (27,623)  |
| Net assets acquired                | \$ 77,984 |

#### Subsequent Acquisition

On April 2, 2015, the Company acquired 65% of the equity interests in Wuxi Easyway Model Design and Manufacture Co. Ltd., a manufacturing service bureau and distributor of 3D printing and scanning products in China. Under the terms of the agreement, the Company has an option to acquire the remainder of the equity interests between the third and fifth anniversary of the closing.

#### (3) Inventories

Components of inventories, net at March 31, 2015 and December 31, 2014 were as follows:

| (in thousands)           | 2015       | 2014      |
|--------------------------|------------|-----------|
| Raw materials            | \$ 54,489  | \$ 46,850 |
| Work in process          | 2,338      | 2,304     |
| Finished goods and parts | 57,775     | 47,491    |
| Inventories, net         | \$ 114,602 | \$ 96,645 |

## (4) Property and Equipment

Property and equipment at March 31, 2015 and December 31, 2014 were as follows:

| (in thousands)                                  | 2015      | 2014      | Useful Life (in years) |
|---|-----------|-----------|------------------------|
| Land  | \$ 541    | \$ 541    | N/A                    |
| Building  | 9,373     | 9,370     | 25                     |
| Machinery and equipment                         | 93,467    | 84,443    | 3-7                    |
| Capitalized software                            | 3,853     | 3,693     | 3-5                    |
| Office furniture and equipment                  | 4,566     | 3,478     | 3-5                    |
| Leasehold improvements                          | 14,561    | 12,447    | Life of lease (a)      |
| Rental equipment                                | 498       | 557       | 5                      |
| Construction in progress                        | 11,866    | 20,082    | N/A                    |
| Total property and equipment                    | 138,725   | 134,611   |                        |
| Less: Accumulated depreciation and amortization | (55,988)  | (52,730)  |                        |
| Total property and equipment, net               | \$ 82,737 | \$ 81,881 |                        |

(a) 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 and amortization expense on property and equipment for the quarters ended March 31, 2015 and 2014 was \$4,709 and \$3,036 respectively.



## (5) Intangible Assets

Intangible assets other than goodwill at March 31, 2015 and December 31, 2014 were as follows:

| (in thousands)                           | 2015       |                          |            | 2014       |                          |            | Useful Life (in years) | Weighted Average Useful Life Remaining (in years) |
|--|------------|--------------------------|------------|------------|--------------------------|------------|------------------------|---|
|  | Gross      | Accumulated Amortization | Net        | Gross      | Accumulated Amortization | Net        |                        |   |
| Intangible assets with finite lives:     |            |                          |            |            |                          |            |                        |   |
| Licenses                                 | \$ 5,875   | \$ (5,875)               | \$ —       | \$ 5,875   | \$ (5,875)               | \$ —       | N/A                    | N/A   |
| Patent costs                             | 20,949     | (7,613)                  | 13,336     | 20,733     | (7,369)                  | 13,364     | 5-20                   | 3   |
| Acquired technology                      | 71,498     | (20,687)                 | 50,811     | 57,383     | (18,241)                 | 39,142     | 3-10                   | 4   |
| Internally developed software            | 9,072      | (5,878)                  | 3,194      | 9,073      | (5,517)                  | 3,556      | 1-8                    | <1  |
| Customer relationships                   | 185,497    | (39,163)                 | 146,334    | 157,139    | (36,975)                 | 120,164    | 3-11                   | 2   |
| Non-compete agreements                   | 35,114     | (12,637)                 | 22,477     | 35,469     | (11,784)                 | 23,685     | 3-11                   | 3   |
| Trade names                              | 26,774     | (4,684)                  | 22,090     | 21,800     | (4,455)                  | 17,345     | 2-10                   | 5   |
| Other                                    | 41,983     | (8,854)                  | 33,129     | 39,100     | (6,905)                  | 32,195     | 4-10                   | 1   |
| Intangible assets with indefinite lives: |            |                          |            |            |                          |            |                        |   |
| Trademarks                               | 2,110      | —                        | 2,110      | 2,110      | —                        | 2,110      | N/A                    | N/A   |
| Total intangible assets                  | \$ 398,872 | \$ (105,391)             | \$ 293,481 | \$ 348,682 | \$ (97,121)              | \$ 251,561 | 1-20                   | 4   |

For the quarter ended March 31, 2015 and 2014, the Company capitalized \$203 and \$210, respectively, of costs incurred to internally develop and extend patents in the United States and various other countries.

Amortization expense of intangible assets for the quarter ended March 31, 2015 and 2014 was \$14,517 and \$9,204 respectively.

Annual amortization expense for intangible assets is expected to be \$54,467, \$48,813, \$43,796, \$35,663 and \$25,876 for the years ended 2015, 2016, 2017, 2018 and 2019, respectively.

(6) Accrued and Other Liabilities

Accrued liabilities at March 31, 2015 and December 31, 2014 were as follows:

| (in thousands)                           | 2015      | 2014      |
|--|-----------|-----------|
| Compensation and benefits                | \$ 25,507 | \$ 20,726 |
| Vendor accruals                          | 14,858    | 10,451    |
| Accrued professional fees                | 1,344     | 532       |
| Accrued taxes                            | 8,403     | 8,577     |
| Royalties payable                        | 1,427     | 1,796     |
| Accrued interest                         | 42        | 43        |
| Accrued earnouts related to acquisitions | 271       | 185       |
| Accrued other                            | 2,574     | 1,909     |
| Total                                    | \$ 54,426 | \$ 44,219 |

Other liabilities at March 31, 2015 and December 31, 2014 were as follows:

| (in thousands)                             | 2015      | 2014      |
|--|-----------|-----------|
| Defined benefit pension obligation         | \$ 6,307  | \$ 7,062  |
| Long term tax liability                    | 3,083     | 2,029     |
| Long term earnouts related to acquisitions | 8,972     | 8,970     |
| Long term deferred revenue                 | 7,911     | 7,627     |
| Other long term liabilities                | 7,483     | 9,210     |
| Total                                      | \$ 33,756 | \$ 34,898 |

(7) Hedging Activities and Financial Instruments

The Company conducts business in various countries using both the functional currencies of those countries and other currencies to effect cross border transactions. As a result, the Company is subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, the Company endeavors to match assets and liabilities in the same currency on its balance sheet and those of its subsidiaries in order to reduce these risks. When appropriate, the Company enters into foreign currency contracts to hedge exposures arising from those transactions. The Company has elected not to prepare and maintain the documentation to qualify for hedge accounting treatment under Accounting Standards Codification (“ASC”) 815, “Derivatives and Hedging,” and therefore, all gains and losses (realized or unrealized) are recognized in “Interest and other expense, net” in the condensed consolidated statements of operations and comprehensive income (loss). Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid expenses and other current assets or in accrued liabilities on the condensed consolidated balance sheet.

There were no foreign currency contracts outstanding at March 31, 2015 or at December 31, 2014.

The condensed consolidated statements of operations for the quarters ended March 31, 2015 and 2014 include a foreign currency transaction loss of \$2,194 and \$205, respectively, which is included in interest and other expense, net.

The total impact of foreign currency translation on accumulated other comprehensive income (loss) for the quarters ended March 31, 2015 and 2014, reflects a loss of \$20,832 and \$13, respectively.

(8) Borrowings

Credit Facility

On October 10, 2014, the Company and certain of its subsidiaries entered into a \$150,000 five-year revolving, unsecured credit facility (the “Credit Agreement”) with PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, HSBC Bank USA, N.A., as Syndication Agent, and the other lenders party thereto (collectively, the “Lenders”). The Credit Agreement comprises a revolving loan facility that provides for advances in the initial aggregate principal amount of up to \$150,000 (the “Credit

Facility”). Subject to certain terms and conditions contained in the Credit Agreement, the Company may, at its option and subject to customary conditions, request an increase in the aggregate principal amount available under the Credit Facility by an additional \$75,000. The Credit Agreement includes provisions for the issuance of letters of credit and swingline loans.

The Credit Agreement is guaranteed by certain of the Company’s material domestic subsidiaries (the “Guarantors”). Pursuant to the Credit Agreement, the Guarantors guarantee to the Lenders, among other things, all of the obligations of the Company and each other Guarantor under the Credit Agreement. From time to time, the Company may be required to cause additional material domestic subsidiaries to become Guarantors under the Credit Agreement.

Generally, amounts outstanding under the Credit Facility bear interest, at the Company’s option, at either the Base Rate or the LIBOR Rate, in each case, plus an applicable margin. Base Rate advances bear interest at a rate per annum equal to the sum of (i) the highest of (A) the Administrative Agent’s prime rate, (B) the Federal Funds Open Rate plus 0.5% or (C) the Daily LIBOR Rate for a one month interest period plus 1%, and (ii) an applicable margin that ranges from 0.25% to 0.50% based upon the Company’s consolidated total leverage ratio. LIBOR Rate advances bear interest at a rate based upon the London interbank offered rate for the applicable interest period, plus an applicable margin that ranges from 1.25% to 1.50% based upon the Company’s consolidated total leverage ratio. Under the terms of the Credit Agreement, (i) accrued interest on each loan bearing interest at the Base Rate is payable quarterly in arrears and (ii) accrued interest on each loan bearing interest at the LIBOR Rate is payable in arrears on the earlier of (A) quarterly and (B) the last day of each applicable interest payment date for each loan. The Credit Facility is scheduled to mature on October 10, 2019, at which time all amounts outstanding thereunder will be due and payable.

The Company is required to pay certain fees in connection with the Credit Facility, including a quarterly commitment fee equal to the product of the amount of the average daily available revolving commitments under the Credit Agreement multiplied by a percentage that ranges from 0.20% to 0.25% depending upon the Company’s leverage ratio, as well as customary administrative fees.

The Credit Agreement contains customary representations, warranties, covenants and default provisions for a Credit Facility of this type, including, but not limited to, financial covenants, limitations on liens and the incurrence of debt, covenants to preserve corporate existence and comply with laws and covenants regarding the use of proceeds of the Credit Facility. The financial covenants include a maximum consolidated total leverage ratio, which is the ratio of consolidated total funded indebtedness to consolidated EBITDA (earnings before interest, taxes, depreciation and amortization expense), as defined in the Credit Agreement, of 3.00 to 1.00, and a minimum interest coverage ratio, which is the ratio of Consolidated EBITDA to cash interest expense, of 3.50 to 1.00. The Company is only required to be in compliance with the financial covenants as of the end of any fiscal quarter in which there are any loans outstanding at any time during such fiscal quarter.

The payment of dividends on the Company's common stock is restricted under provisions of the Credit Facility, which limits the amount of cash dividends that the Company may pay in any one fiscal year to \$30,000. The Company currently does not pay, and has not paid, any dividends on their common stock, and currently intends to retain any future earnings for use in their business.

There was no outstanding balance on the Credit Facility as of March 31, 2015 and December 31, 2014.

#### Capitalized Lease Obligations

The Company's capitalized lease obligations include lease agreements that were entered into during 2006 with respect to the Company's corporate headquarters located in Rock Hill, SC, and lease agreements assumed in the LayerWise acquisition. Total capitalized lease obligations decreased to \$9,078 at March 31, 2015 from \$9,434 at December 31, 2014, primarily due to the normal scheduled timing of payments.

#### Other debt

In connection with its acquisition of LayerWise, the Company assumed a portion of LayerWise's outstanding bank debt, consisting of revolving credit facilities and term loans. The term loans bear interest at rates ranging from 1.34% to 5.40% as of March 31, 2015. The outstanding balance on the term loans was \$66 and \$127 as of March 31, 2015 and December 31, 2014, respectively. There were no borrowings outstanding under the revolving credit facilities as of March 31, 2015 or December 31, 2014. There is a 0.125% commitment fee on the unused portion of the facilities.

#### (9) Stock-based Compensation Plans

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). Stock-based compensation expense for the quarter ended March 31, 2015 and 2014 was as follows:

| (in thousands)          | Quarter Ended<br>March 31, |          |
|-------------------------|----------------------------|----------|
|                         | 2015                       | 2014     |
| Restricted stock awards | \$ 10,329                  | \$ 7,276 |

The number of shares and units of restricted common stock awarded and the weighted average fair value per share and unit during the quarter ended March 31, 2015 and 2014 were as follows:

| (in thousands, except per share amounts)                                   | Quarter Ended March 31, |                        | 2014 | Weighted<br>Average<br>Fair<br>Value | Weighted<br>Average<br>Fair<br>Value |
|--|-------------------------|------------------------|------|--------------------------------------|--------------------------------------|
|  | 2015                    | Number of Shares/Units |      |                                      |                                      |
| Restricted stock awards:<br>Granted under the 2004 Incentive Stock<br>Plan | 273                     |                        | 233  | \$ 28.62                             | \$ 80.82                             |

During the quarter ended March 31, 2015, the Company granted restricted stock awards covering 273 shares and units of common stock pursuant to the Company's 2004 Incentive Stock Plan. As of March 31, 2015, 148 shares or units under awards remained subject to acceptance and 60 shares under awards were granted to executive officers of the Company during the quarter. During the quarter ended March 31, 2014, the Company granted restricted stock awards covering 233 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan, of which 30 shares were awarded to executive officers of the Company.

No shares or units of common stock pursuant to the Company's 2004 Restricted Stock Plan were granted to Non-Employee Directors during the first quarter of 2015 or 2014.

## (10) International Retirement Plan

The following table shows the components of net periodic benefit costs and other amounts recognized in the condensed consolidated statements of operations and comprehensive income (loss) for the quarter ended March 31, 2015 and 2014:

|                | Quarter Ended<br>March 31, |        |
|----------------|----------------------------|--------|
| (in thousands) | 2015                       | 2014   |
| Service cost   | \$ 47                      | \$ 45  |
| Interest cost  | 62                         | 62     |
| Total          | \$ 109                     | \$ 107 |

## (11) Earnings (Loss) Per Share

The Company presents basic and diluted earnings per share (“EPS”) amounts. Basic EPS is calculated by dividing net income (loss) attributable to 3D Systems Corporation 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 (loss) by the weighted average number of common and common equivalent shares outstanding during the applicable period. For the quarter ended March 31, 2015, restricted stock units were antidilutive because of the net loss, and, as such, their effect has not been included in the calculation of diluted earnings (loss) per share.

The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares at March 31, 2015 and 2014:

|  | Quarter Ended March<br>31, |          |
|--|----------------------------|----------|
| (in thousands, except per share amounts)                 | 2015                       | 2014     |
| Numerator for basic and diluted net earnings per share:  |                            |          |
| Net income (loss) attributable to 3D Systems Corporation | \$ (13,181)                | \$ 4,877 |

|   |           |         |
|---|-----------|---------|
| Denominator for basic and diluted net earnings per share:                               |           |         |
| Weighted average shares   | 111,731   | 103,546 |
| Earnings (loss) per share, basic and diluted  | \$ (0.12) | \$ 0.05 |
| Interest expense excluded from diluted earnings per share calculation (a)               | \$ —      | \$ 156  |
| 5.50% Convertible notes shares excluded from diluted earnings per share calculation (a) | —         | 876     |

(a) Average outstanding diluted earnings per share calculation 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.

For the quarter ended March 31, 2015, average common shares for basic and diluted loss per share was 111,731 and basic and diluted loss per share was \$0.12. For the quarter ended March 31, 2014, average common shares for basic and diluted earnings per share was 103,546 and basic and diluted earnings per share was \$0.05.

## (12) 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. 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)<br>Description           | Fair Value Measurements as of March 31, 2015 |         |          |           |
|---|--|---------|----------|-----------|
|   | Level 1                                      | Level 2 | Level 3  | Total     |
| Cash equivalents (a)                    | \$ 87,920                                    | \$ —    | \$ —     | \$ 87,920 |
| Redeemable noncontrolling interests (b) | \$ —   | \$ —    | \$ 8,872 | \$ 8,872  |

- (a) 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.
- (b) Redeemable noncontrolling interests represents a put option that owners of interests in a certain subsidiary have the right, in certain circumstances, to require the Company to acquire either a portion of, or all of, the remaining ownership interests held by them. The Company determines the fair value of the redeemable noncontrolling interests based on unobservable inputs considering the assumptions that market participants would make in pricing the obligation. Given the significance of the unobservable inputs, the valuations are classified in level 3 of the fair value hierarchy. See Note 15.

The Company did not have any transfers of assets and liabilities between Level 1, Level 2 and Level 3, of the fair value measurement hierarchy during the quarter ended March 31, 2015.

In addition to the financial assets included in the above table, 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 March 31, 2015 or December 31, 2014.

### (13) Income Taxes

The Company's effective tax rates were 34.6% and 42.0% for the quarters ended March 31, 2015 and 2014, respectively.

The Company has not provided for any taxes on the unremitted earnings of its foreign subsidiaries, as the Company intends to permanently reinvest all such earnings outside of the U.S. We believe a calculation of the deferred tax liability associated with these undistributed earnings is impracticable.

Tax years 2011 through 2014 remain subject to examination by the U.S. Internal Revenue Service. The Company has utilized U.S. loss carryforwards causing the years 1997 to 2007 to be subject to examination. The Company files income tax returns (which are open to examination beginning in the year shown in parentheses) in Australia (2009), Belgium (2010), Brazil (2014), China (2010), France (2011), Germany (2011), India (2012), Israel (2010), Italy (2009), Japan (2008), Korea (2009), Mexico (2014), Netherlands (2007), Switzerland (2008), the United Kingdom (2009) and Uruguay (2014).

#### (14) Segment Information

The Company operates in one reportable business segment. The Company conducts its business through subsidiaries in the United States, a subsidiary in Israel that operates a research and production facility and sales and service offices, a subsidiary in Switzerland that operates a research and production facility, subsidiaries in France and Brazil that operate production facilities and sales and service offices, and other sales and service offices in Europe (Belgium, Germany, the United Kingdom, Italy and the Netherlands), Israel and in Asia Pacific (Australia, China, India, Japan and Korea). 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." Financial information concerning the Company's geographical locations is based on the location of the selling entity. Such summarized financial information concerning the Company's geographical operations is shown in the following tables:

| (in thousands)                       | Quarter Ended March 31, |            |
|--------------------------------------|-------------------------|------------|
|                                      | 2015                    | 2014       |
| Revenue from unaffiliated customers: |                         |            |
| Americas                             | \$ 86,262               | \$ 68,032  |
| Germany                              | 21,250                  | 23,825     |
| Other EMEA                           | 27,454                  | 23,739     |
| Asia Pacific                         | 25,756                  | 32,162     |
| Total                                | \$ 160,722              | \$ 147,758 |

| (in thousands) | Quarter Ended March 31, |            |
|----------------|-------------------------|------------|
|                | 2015                    | 2014       |
| Products       | \$ 62,715               | \$ 60,753  |
| Materials      | 37,107                  | 40,441     |
| Services       | 60,900                  | 46,564     |
| Total revenue  | \$ 160,722              | \$ 147,758 |

Quarter Ended March 31, 2015

Intercompany Sales to

| (in thousands) | Americas  | Germany   | Other EMEA | Asia Pacific | Total     |
|----------------|-----------|-----------|------------|--------------|-----------|
| Americas       | \$ 480    | \$ 10,134 | \$ 5,837   | \$ 4,973     | \$ 21,424 |
| Germany        | —         | —         | 804        | —            | 804       |
| Other EMEA     | 14,915    | 654       | 864        | 646          | 17,079    |
| Asia Pacific   | 626       | —         | 13         | 758          | 1,397     |
| Total          | \$ 16,021 | \$ 10,788 | \$ 7,518   | \$ 6,377     | \$ 40,704 |

Quarter Ended March 31, 2014

Intercompany Sales to

| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
|----------------|----------|---------|------------|--------------|-------|
|----------------|----------|---------|------------|--------------|-------|

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|              |           |           |          |          |           |
|--------------|-----------|-----------|----------|----------|-----------|
| Americas     | \$ —      | \$ 10,937 | \$ 4,947 | \$ 2,346 | \$ 18,230 |
| Germany      | 409       | —         | 1,478    | —        | 1,887     |
| Other EMEA   | 10,043    | 1,330     | 332      | 555      | 12,260    |
| Asia Pacific | 482       | —         | —        | 682      | 1,164     |
| Total        | \$ 10,934 | \$ 12,267 | \$ 6,757 | \$ 3,583 | \$ 33,541 |

| (in thousands)                 | Quarter Ended March |            |
|--------------------------------|---------------------|------------|
|                                | 2015                | 2014       |
| Income (loss) from operations: |                     |            |
| Americas                       | \$ (23,106)         | \$ (2,030) |
| Germany                        | 1,840               | 197        |
| Other EMEA                     | (1,335)             | 2,401      |
| Asia Pacific                   | 5,584               | 9,067      |
| Subtotal                       | (17,017)            | 9,635      |
| Inter-segment elimination      | (507)               | (118)      |
| Total                          | \$ (17,524)         | \$ 9,517   |

| (in thousands) | March 31,<br>2015 | December 31,<br>2014 |
|----------------|-------------------|----------------------|
| Assets:        |                   |                      |
| Americas       | \$ 920,092        | \$ 1,018,113         |
| Germany        | 53,448            | 47,524               |
| Other EMEA     | 467,263           | 382,259              |
| Asia Pacific   | 72,624            | 78,074               |
| Total          | \$ 1,513,427      | \$ 1,525,970         |

| (in thousands)             | March 31,<br>2015 | December<br>31,<br>2014 |
|----------------------------|-------------------|-------------------------|
| Cash and cash equivalents: |                   |                         |
| Americas                   | \$ 149,629        | \$ 245,219              |
| Germany                    | 13,419            | 6,640                   |
| Other EMEA                 | 22,231            | 15,556                  |
| Asia Pacific               | 14,617            | 17,447                  |
| Total                      | \$ 199,896        | \$ 284,862              |

#### (15) 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 \$3,204 and \$2,311 for the quarters ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, the Company has supply commitments on printer assemblies for the second quarter of 2015 that total \$77,623, compared to \$56,620 at December 31, 2014.

Certain of the Company's acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total liabilities recorded for these earnouts as of March 31, 2015 and December 31, 2014 was \$9,243 and \$9,155, respectively.

## Put Options

Owners of interests in a certain subsidiary have the right in certain circumstances to require the Company to acquire either a portion of or all of the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to a specified exercise date. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts in 2019.

Management estimates, assuming that the subsidiary owned by the Company at March 31, 2015, performs over the relevant future periods at their forecasted earnings levels, that these rights, if exercised, could require the Company, in future periods, to pay approximately \$8,872 to the owners of such rights to acquire such ownership interests in the relevant subsidiary. This amount has been recorded as redeemable noncontrolling interests on the balance sheet at March 31, 2015 and December 31, 2014. The ultimate amount payable relating to this transaction will vary because it is dependent on the future results of operations of the subject business.

The following table presents changes in redeemable noncontrolling interests:

|                                  | March 31, | December |
|----------------------------------|-----------|----------|
|                                  | 2015      | 31,      |
| (in thousands)                   |           | 2014     |
| Beginning balance                | \$ 8,872  | \$ —     |
| Changes in redemption value      |           | — 8,550  |
| Currency translation adjustments | —         | 322      |
| Ending balance                   | \$ 8,872  | \$ 8,872 |

## Litigation

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

## 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 first parties arising from the use of the Company's products. Historically, costs related to these indemnification provisions have not been significant and we are 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.

## (16) Accumulated Other Comprehensive Income (Loss)

The changes in the balances of accumulated other comprehensive income (loss) by component are as follows:

| (in thousands)                    | Foreign<br>currency<br>translation<br>adjustment | Defined<br>benefit<br>pension<br>plan | Total       |
|-----------------------------------|--|---------------------------------------|-------------|
| Balance at December 31, 2014      | \$ (22,195)                                      | \$ (2,211)                            | \$ (24,406) |
| Other comprehensive income (loss) | (20,832)   | 265                                   | (20,567)    |

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Balance at March 31, 2015                      \$ (43,027)    \$ (1,946)    \$ (44,973)

The amounts presented above are included in other comprehensive income (loss) and are net of taxes. For additional information about foreign currency translation, see Note 7. For additional information about the pension plan, see Note 10.

(17) Noncontrolling Interests

As of March 31, 2015, the Company owned approximately 95% of the capital and voting rights of Phenix Systems, a global provider of direct metal selective laser sintering 3D printers. Phenix Systems was acquired on July 15, 2013.

As of March 31, 2015, the Company owned approximately 70% of the capital and voting rights of Robtec, an additive manufacturing service bureau and distributor of 3D printing and scanning products. Robtec was acquired on November 25, 2014.

(18) Subsequent Event

On April 2, 2015, the Company acquired 65% of the equity interests in Wuxi Easyway Model Design and Manufacture Co. Ltd, a manufacturing service bureau and distributor of 3D printing and scanning products in China. Under the terms of the agreement, the Company has an option to acquire the remainder of the equity interests between the third and fifth anniversary of the closing.



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

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

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

### Business Overview

We provide the most advanced and comprehensive 3D digital design and fabrication solutions available today, including 3D printers, print materials and cloud-sourced custom parts. Our powerful ecosystem transforms entire industries by empowering professionals and consumers everywhere to bring their ideas to life using our vast material selection, including plastics, metals, ceramics and edibles.

Our leading personalized medicine capabilities include end-to-end simulation, training and planning, and printing of surgical instruments and devices for personalized surgery and patient specific medical and dental devices. Our democratized 3D digital design, fabrication and inspection products provide seamless interoperability and incorporate the latest immersive computing technologies. Our products and services disrupt traditional methods, deliver improved results and empower our customers to manufacture the future now.

### Recent Developments

In January 2015, we launched the full-color Cube Pro C at the International Consumer Electronics Show. This is the first plastic jet printer that is capable of printing in full color. The Cube Pro C is part of our consumer portfolio and is ideal for classroom, home and the engineer's desktop. We also showcased our new Touch™ haptic 3D stylus. The Touch stylus comes with an OpenHaptics Software Developer Kit for digital design and virtual gaming and is an easy to use, powerful perceptual device that provides a virtual sculpting experience and is ideal for designers, artists, students, gamers and hobbyists.

In February 2015, we completed the acquisition of all the outstanding shares of Cimatron Ltd. (“Cimatron”), a provider of integrated 3D CAD/CAM software products and solutions for manufacturing. The acquisition of Cimatron adds complementary technology, extends our sales coverage globally and multiplexes cross-selling opportunities.

In February 2015, we announced the availability of the ProJet 3510 DP Pro, an all-in-one 3D printer designed for healthcare applications. The latest in our MultiJet line, the ProJet 3510 DP Pro gives medical and dental labs the power to print precision dental wax-ups, durable implant drill guides, temperature-resistant, thermo-formable orthodontic patterns and crown and bridge molds interchangeably, at up to twice the throughput of today’s printers.

In April 2015, we acquired 65% of the equity interests in Wuxi Easyway Model Design and Manufacture Co. Ltd., a manufacturing service bureau and distributor of 3D printing and scanning products in China. Easyway brings us sales and service coverage, service bureau production capabilities and relationships with leading Chinese automotive, medical and consumer goods companies.

## Results of Operations

### Summary of 2015 financial results

Revenue for the first quarter of 2015 increased by 8.8%, or \$13.0 million, to \$160.7 million compared to \$147.8 million in the first quarter of 2014. These results primarily reflected growth in services revenue, driven by software and healthcare services.

Products revenue increased by \$2.0 million, or 3.2%, from the first quarter of 2014, to \$62.7 million, driven by increased demand for consumer printers and expanded healthcare and software products.

Materials revenue for the first quarter of 2015 was \$37.1 million, a decrease of \$3.3 million, or 8.3%, from the first quarter of 2014. This decrease was driven by lower design and manufacturing printer sales during the quarter coupled with an unfavorable impact of foreign currency translation.

Services revenue increased by \$14.3 million, or 30.8%, from the first quarter of 2014, to \$60.9 million. The increase in services revenue primarily reflects the addition of healthcare services, coupled with growing Quickparts, consumer and software services.

We calculate organic growth by comparing this year's total revenue for the period, excluding the revenue recognized from all acquired businesses that we have owned for less than twelve months, to last year's total revenue for the period. Once we have owned a business for one year, the revenue is included in organic growth. Organic growth is calculated based on total revenue for the prior year period. In the first quarter of 2015, organic revenue decreased by 7.4%, compared to organic growth of 28.1% for the first quarter of 2014.

Healthcare revenue includes sales of products, materials, and services for health-related applications, including simulation, training and planning, and printing of surgical instruments and medical and dental devices for personalized medicine. For the first quarter of 2015, healthcare revenue increased by 38.4% and made up 18.7%, or \$30.0 million, of our total revenue compared to 14.7%, or \$21.7 million, in the first quarter of 2014, primarily due to our increased penetration and expansion of healthcare applications, including the addition of Simbionix, Medical Modeling and Layerwise.

Consumer revenue includes sales of our Cube® series 3D printers and their related print materials, Sense 3D scanners and other products and services related to consumer products and retail channels. For the first quarter of 2015, consumer revenue increased 64.5% to \$15.9 million, or 9.9% of our total revenue, compared to \$9.7 million, or 6.5% of total revenue, in the first quarter of 2014.

Gross profit in the first quarter of 2015 increased by \$3.5 million, or 4.7% from the first quarter of 2014, to \$79.0 million, reflecting higher revenue from services. Our gross profit margin was 49.1% in the first quarter of 2015, compared to 51.1% in the first quarter of 2014, reflecting current sales mix and timing of sales.

Our total operating expenses increased by \$30.5 million in the first quarter of 2015, to \$96.5 million, from \$66.0 million in the same quarter of 2014. The increase reflected higher selling, general and administrative expenses primarily due to increased compensation expenses and acquisition costs. The increase also reflects a \$5.0 million increase in research and development expenses related to our portfolio expansion and development of new products.

Our operating loss for the first quarter of 2015 was \$17.5 million, compared to operating income of \$9.5 million in the first quarter of 2014. This was primarily due to lower gross profit margin and higher operating expenses as discussed in more detail below.

Our operating activities used \$0.9 million of cash during the first quarter of 2015, which is discussed in further detail below. We used \$82.5 million to fund our strategic investing activities, including acquisition costs. Financing activities during the first quarter of 2015 generated \$0.6 million of cash. In total, our unrestricted cash balance at March 31, 2015 was \$199.9 million compared to \$284.9 million at December 31, 2014.

First quarter comparison of revenue by class of product and service

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

Table 1

| (Dollars in thousands)       | Products  |        | Materials |        | Services  |        | Totals     |       |
|------------------------------|-----------|--------|-----------|--------|-----------|--------|------------|-------|
| Revenue – 1st quarter 2014   | \$ 60,753 | 41.1 % | \$ 40,441 | 27.4 % | \$ 46,564 | 31.5 % | \$ 147,758 | 100 % |
| Change in revenue:           |           |        |           |        |           |        |            |       |
| Volume                       |           |        |           |        |           |        |            |       |
| Core products and services   | 7,359     | 12.1   | (3,061)   | (7.6)  | 21,570    | 46.3   | 25,868     | 17.5  |
| New products and services    | (912)     | (1.5)  | (9,959)   | (24.6) | (3,488)   | (7.5)  | (14,359)   | (9.7) |
| Price/Mix                    | 493       | 0.8    | 12,671    | 31.3   | —         | —      | 13,164     | 8.9   |
| Foreign currency translation | (4,978)   | (8.2)  | (2,985)   | (7.4)  | (3,746)   | (8.0)  | (11,709)   | (7.9) |
| Net change                   | 1,962     | 3.2    | (3,334)   | (8.3)  | 14,336    | 30.8   | 12,964     | 8.8   |
| Revenue – 1st quarter 2015   | \$ 62,715 | 39.0 % | \$ 37,107 | 23.1 % | \$ 60,900 | 37.9 % | \$ 160,722 | 100 % |

We earn revenues from the sale of products, materials and services. On a consolidated basis, revenue for the first quarter of 2015 increased by \$13.0 million, or 8.8%, compared to the first quarter of 2014, primarily reflecting an increase in services revenue.

The \$2.0 million increase in revenue from products compared to the first quarter of 2014 is driven by increased demand for consumer printers, software and expanded healthcare products. Certain resellers may purchase stock inventory in the ordinary course of business. For the first quarter of 2015, we estimate that revenue related to reseller inventory amounted to approximately 5% of total revenue, compared to approximately 10% of total revenue for the first quarter of 2014.

In addition to printers, the products category includes software products, perceptual and haptic devices, Vidar digitizers and Symbionix simulators. Software revenue, including perceptual and haptic devices, contributed \$8.9 million and \$5.8 million of products revenue in 2015 and 2014, respectively.

Due to the relatively high price of certain professional printers and a corresponding lengthy selling cycle and relatively low unit volume of the higher priced professional printer sales in any particular period, a shift in the timing and concentration of orders and shipments from one period to another can affect reported revenue in any given period. Revenue reported in any particular period is also affected by timing of revenue recognition under rules prescribed by generally accepted accounting principles.

Our revenue from materials decreased by \$3.3 million, including a \$3.0 million unfavorable impact of foreign currency. Sales of integrated materials decreased by 2.6% to \$28.7 million and represented 77.3% of total materials revenue in the first quarter of 2015, compared to 72.7% in the first quarter of 2014.

The increase in services revenue primarily reflects the addition of Medical Modeling and Simbionix revenue and organic and acquired growth from our Quickparts solutions, coupled with growing consumer and software services. Service revenue from Quickparts increased 9.8% to \$31.6 million for the first quarter of 2015, compared to \$28.8 for the first quarter of 2014. Software services contributed \$7.7 million of revenue in the first quarter of 2015 compared to \$3.2 million in the first quarter of 2014.

At March 31, 2015 our backlog was \$37.8 million, compared to backlog of \$46.5 million at December 31, 2014 and \$28.8 million at March 31, 2014. Production and delivery of our printers is generally not characterized by long lead times, backlog is more dependent on timing of customers' requested deliveries. In addition, Quickparts services lead time and backlog depends on whether orders are for rapid prototyping or longer-range production runs. The backlog at March 31, 2015 includes \$14.1 million of Quickparts services orders, compared to \$8.3 million at March 31, 2014.

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

As used in this Management's Discussion and Analysis, the 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 print materials on our operating results has grown.

## Change in first quarter revenue by geographic region

Table 2 sets forth the change in revenue by geographic area for the first quarter of 2015 compared to the first quarter of 2014:

Table 2

| (Dollars in thousands)       | Americas  |        | EMEA      |        | Asia Pacific |        | Total      |       |
|------------------------------|-----------|--------|-----------|--------|--------------|--------|------------|-------|
| Revenue – 1st quarter 2014   | \$ 68,032 | 46.0 % | \$ 47,564 | 32.2 % | \$ 32,162    | 21.8 % | \$ 147,758 | 100 % |
| Change in revenue:           |           |        |           |        |              |        |            |       |
| Volume                       | 18,549    | 27.3   | (1,194)   | (2.5)  | (5,846)      | (18.2) | 11,509     | 7.8   |
| Price/Mix                    | 274       | 0.4    | 11,494    | 24.2   | 1,396        | 4.3    | 13,164     | 8.9   |
| Foreign currency translation | (593)     | (0.9)  | (9,160)   | (19.3) | (1,956)      | (6.1)  | (11,709)   | (7.9) |
| Net change                   | 18,230    | 26.8   | 1,140     | 2.4    | (6,406)      | (20.0) | 12,964     | 8.8   |
| Revenue – 1st quarter 2015   | \$ 86,262 | 53.7 % | \$ 48,704 | 30.3 % | \$ 25,756    | 16.0 % | \$ 160,722 | 100 % |

Revenue from operations in the Americas for the first quarter of 2015 increased by \$18.3 million, or 26.8%, to \$86.3 million from \$68.0 million in the first quarter of 2014. The increase was due to higher volume and the favorable combined effect of price and mix, partially offset by an unfavorable impact of foreign currency translation from Latin America.

Revenue from operations outside the Americas in the first quarter of 2015 decreased by \$5.2 million, or 6.6%, to \$74.5 million from \$79.7 million in the first quarter of 2014. Revenue from operations outside the Americas as a percent of total revenue was 46.3% and 54.0%, at March 31, 2015 and 2014, respectively. Excluding the effect of foreign currency translation on revenues outside the U.S. would result in 16.7% growth for the first quarter of 2015 compared to 71.9% growth in the first quarter of 2014.

Revenue from operations in EMEA in the first quarter of 2015 increased by \$1.1 million, or 2.4%, to \$48.7 million from \$47.6 million in the first quarter of 2014. This increase was due to a favorable combined effect of price and mix, partially offset by an unfavorable impact of foreign currency translation and lower volume.

Revenue from Asia Pacific operations in the first quarter of 2015 decreased by \$6.4 million, or 20.0%, to \$25.8 million from \$32.2 million in the first quarter of 2014, due primarily to a decrease in volume and an unfavorable effect of foreign currency translation, partially offset by the favorable combined effect of price and mix.

## Gross profit and gross profit margins

Table 3 sets forth gross profit and gross profit margins for our products and services for the first quarters of 2015 and 2014:

Table 3

|                        | Quarter Ended March 31, |                     |              |                     |
|------------------------|-------------------------|---------------------|--------------|---------------------|
|                        | 2015                    |                     | 2014         |                     |
| (Dollars in thousands) | Gross Profit            | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| Products               | \$ 21,764               | 34.7 %              | \$ 24,162    | 39.8 %              |
| Materials              | 27,582                  | 74.3                | 30,216       | 74.7                |
| Services               | 29,638                  | 48.7                | 21,094       | 45.3                |
| Total                  | \$ 78,984               | 49.1 %              | \$ 75,472    | 51.1 %              |

On a consolidated basis, gross profit for the first quarter of 2015 increased by \$3.5 million to \$79.0 million from \$75.5 million in the first quarter of 2014, primarily as a result of higher revenue from services.

Consolidated gross profit margin in the first quarter of 2015 decreased by 2.0 percentage points to 49.1% from 51.1% for the first quarter of 2014. The lower gross profit margin reflects a change in revenue mix with a higher portion of revenue from lower margin products within categories.



Products gross profit for the first quarter of 2015 decreased by \$2.4 million, or 9.9%, to \$21.8 million from \$24.2 million in the 2014 quarter. Gross profit margin for products decreased by 5.1 percentage points to 34.7% from 39.8% in the 2014 quarter. Despite the addition of higher margin healthcare products and increasing software contribution, gross profit margin decreased due to mix of products, including a higher portion of sales from consumer products, coupled with continued expansion of our manufacturing capacity.

Materials gross profit for the first quarter of 2015 decreased by \$2.6 million, or 8.7%, to \$27.6 million from \$30.2 million in the 2014 quarter, and gross profit margin for materials decreased by 0.4 percentage points to 74.3% from 74.7% in the 2014 quarter primarily due to the volume and mix of materials sold during the quarter.

Gross profit for services for the first quarter of 2015 increased by \$8.5 million, or 40.5%, to \$29.6 million from \$21.1 million in the 2014 quarter. Gross profit margin for services increased by 3.4 percentage points to 48.7% from 45.3% in the 2014 quarter. The increase in gross profit margin for services was primarily due to the addition of higher margin healthcare services and an increase in Quickparts gross profit margin, to 44.4% for the first quarter of 2015 from 41.5% in the first quarter of 2014.

#### Operating expenses

As shown in Table 4, total operating expenses increased by \$30.5 million, or 46.3%, to \$96.5 million in the first quarter of 2015 from \$66.0 million in the first quarter of 2014. This increase was due to higher selling, general and administrative expenses and higher research and development expenses, both of which are discussed below.

Table 4

|  | Quarter Ended March 31, |           |           |           |
|--|-------------------------|-----------|-----------|-----------|
|  | 2015                    |           | 2014      |           |
| (Dollars in thousands)                       | Amount                  | % Revenue | Amount    | % Revenue |
| Selling, general and administrative expenses | \$ 74,292               | 46.2 %    | \$ 48,720 | 33.0 %    |
| Research and development expenses            | 22,216                  | 13.8      | 17,235    | 11.7      |
| Total operating expenses                     | \$ 96,508               | 60.0 %    | \$ 65,955 | 44.7 %    |

Selling, general and administrative expenses increased by \$25.6 million to \$74.3 million in the first quarter of 2015 compared to \$48.7 million in the first quarter of 2014, and increased to 46.2% of revenue in 2015 compared to 33.0% for 2014. The increase was due primarily to an \$11.0 million increase in compensation costs due to increased staffing, a \$5.3 million increase in amortization, a \$1.5 million increase in bad debt expense, a \$1.2 million increase in marketing expenses and a \$1.1 million increase in legal fees related to acquisitions.

Research and development expenses increased by \$5.0 million, or 28.9%, to \$22.2 million in the first quarter of 2015 from \$17.2 million in the first quarter of 2014. This increase was primarily due to a \$3.0 million increase in compensation expenses related to talent expansion and a \$1.7 million increase in consulting fees.

#### Income (loss) from operations

Our loss from operations of \$17.5 million for the first quarter of 2015 decreased from income from operations of \$9.5 million in the first quarter of 2014. See Gross profit and gross profit margins and Operating expenses above. The following table sets forth operating income by geographic area for the first quarter of 2015 compared to 2014:

Table 5

| (Dollars in thousands)        | Quarter Ended March |            |
|-------------------------------|---------------------|------------|
|                               | 2015                | 2014       |
| Income (loss) from operations |                     |            |
| Americas                      | \$ (23,106)         | \$ (2,030) |
| Germany                       | 1,840               | 197        |
| Other EMEA                    | (1,335)             | 2,401      |
| Asia Pacific                  | 5,584               | 9,067      |
| Subtotal                      | (17,017)            | 9,635      |
| Inter-segment elimination     | (507)               | (118)      |
| Total                         | \$ (17,524)         | \$ 9,517   |

With respect to the Americas, in 2015 and 2014, the changes in operating income by geographic area reflected the same factors relating to our consolidated operating income that are discussed above.

The changes in operating income in our operations outside the Americas in 2015 and 2014 resulted primarily from changes in sales volume, transfer pricing and foreign currency translation.

#### Interest and other expense, net

Interest and other expense, net was \$2.6 million in the first quarter of 2015 compared with \$1.0 million in the 2014 quarter. For the first quarter of 2015, interest and other expense, net, primarily consisted of \$2.2 million of foreign exchange loss, \$0.3 million of other expense and \$0.2 million of interest expense; partially offset by \$0.1 million of interest and other income.

For the first quarter of 2014, interest and other expense, net, primarily consisted of \$0.6 million of other expense, \$0.4 million of interest expense and a foreign exchange loss of \$0.2 million, partially offset by \$0.2 million of interest and other income.

#### Benefit and provision for income taxes

We recorded a \$6.9 million benefit for income taxes in the first quarter of 2015 and a \$3.6 million provision for income taxes in the first quarter of 2014. Our 2015 and 2014 benefit and provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions.

#### Net income (loss)

Net loss attributable to the Company for the first quarter of 2015 was \$13.2 million, compared to net income of \$4.9 million in the first quarter of 2014. The principal reasons for the change, which are discussed in more detail above, were:

- the \$27.0 million decrease in operating income and
- the \$1.5 million increase in interest and other expense; partially offset by
- the \$10.5 million decrease in our tax provision.

For the quarter ended March 31, 2015, average common shares for basic and diluted loss per share was 111.7 million and basic and diluted loss per share was \$0.12. For the quarter ended March 31, 2014, average common shares for basic and diluted earnings per share was 103.5 million and basic and diluted earnings per share was \$0.05.

#### 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 unaudited condensed consolidated financial statements presented on a GAAP basis to facilitate a better understanding of the impact that several 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.



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

- Non-cash stock-based compensation expenses. We exclude the tax-effected stock-based compensation expenses from operating expenses primarily because they are non-cash.
- Amortization of intangibles. We exclude the tax-effected amortization of intangible assets from our cost of sales and operating expenses. 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 from our operating expenses.
- Non-cash interest expense. We exclude tax-effected non-cash interest expenses, primarily related to the costs associated with our senior convertible notes, from interest and other expenses, net.

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

Table 6

| (in thousands, except per share amounts)                      | Quarter Ended March<br>31, |           |
|---|----------------------------|-----------|
|   | 2015                       | 2014      |
| GAAP net income (loss) attributable to 3D Systems Corporation | \$ (13,181)                | \$ 4,877  |
| Cost of sales adjustments:                                    |                            |           |
| Amortization of intangibles                                   | 75                         | 65        |
| Operating expense adjustments:                                |                            |           |
| Amortization of intangibles                                   | 14,441                     | 9,128     |
| Acquisition and severance expenses                            | 3,240                      | 990       |
| Non-cash stock-based compensation expense                     | 10,329                     | 7,276     |
| Interest and other expense adjustments:                       |                            |           |
| Non-cash interest expense                                     | —                          | 96        |
| Tax effect (a)  | (9,705)                    | (7,373)   |
| Non-GAAP net income   | \$ 5,199                   | \$ 15,059 |
| Non-GAAP basic and diluted earnings per share                 | \$ 0.05                    | \$ 0.15   |

a) Tax effect is calculated quarterly, based on the actual tax rate for each quarter.

## Financial Condition and Liquidity

Table 7

| (Dollars in thousands)                                      | March 31,<br>2015 | December<br>31, 2014 |
|---|-------------------|----------------------|
| Cash and cash equivalents                                   | \$ 199,896        | \$ 284,862           |
| Working capital   | \$ 348,234        | \$ 432,199           |
| Stockholders' equity attributable to 3D Systems Corporation | \$ 1,270,306      | \$ 1,292,918         |

Our unrestricted cash and cash equivalents decreased by \$85.0 million to \$199.9 million at March 31, 2015 from \$284.9 million at December 31, 2014. We used \$0.9 million of cash from operating activities. Cash from operations consisted of \$13.1 million of net loss, \$22.7 million of non-cash charges and \$10.5 million of cash used by net changes in operating accounts. We used \$82.5 million of cash in investing activities, including \$78.6 million to fund the acquisition of Cimatron and other investing activities. Cash from financing activities provided \$0.6 million of cash. See Cash flow and Capitalized lease obligations below.

Cash and cash equivalents at March 31, 2015 includes \$51.2 million of cash held outside the U.S., compared to \$39.6 million at December 31, 2014. Cash held outside the U.S. is used in our foreign operations for working capital purposes and is considered to be permanently invested; consequently, we have not provided for any taxes on repatriation. The increase in cash held outside the U.S. is primarily attributable to the Cimatron acquisition.

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

Our net working capital decreased by \$84.0 million to \$348.2 million at March 31, 2015 from \$432.2 million at December 31, 2014, primarily due to the factors discussed below.

Accounts receivable, net, decreased by \$15.3 million to \$153.1 million at March 31, 2015 from \$168.4 million at December 31, 2014. Gross accounts receivable decreased by \$12.4 million from December 31, 2014. Days sales outstanding was 86 days at March 31, 2015 compared to 83 days at December 31, 2014. Accounts receivable more than 90 days past due decreased to 14.9% of gross receivables from 16.7% at December 31, 2014.

Inventories, net increased by \$18.0 million to \$114.6 million at March 31, 2015 from \$96.6 million at December 31, 2014. This increase resulted primarily from an expanding product portfolio, acquired inventory, timing of orders, assembly production, and sales and revenue recognition at quarter-end. The increase in inventory reflects a \$7.6 million increase in raw materials inventory and a \$10.3 million increase in finished goods inventory. We maintained \$7.4 million of inventory reserves at March 31, 2015 and \$6.7 million of such reserves at December 31, 2014.

The majority of our inventory consists of finished goods, including products, materials and service parts. Inventory also consists of raw materials and spare parts for the in-house assembly and support service products. We outsource the assembly and refurbishment of certain production printers; therefore, we generally do not hold in inventory most parts for production printer assembly or refurbishment.

The changes in the first quarter of 2015 that make up the other components of working capital not discussed above arose in the ordinary course of business.

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

We have relied on 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 by issuing equity or debt securities to the public or selected investors, or by borrowing from financial institutions, selling assets or restructuring debt.

## Cash flow

The table below summarizes the cash provided by or used in operating activities, investing activities and financing activities, as well as the effect of changes in foreign currency exchange rates on cash, for the first quarter of 2015 and 2014.

Table 8

|  | Three Months Ended |         |
|--|--------------------|---------|
|  | March 31,          |         |
|  | 2015               | 2014    |
| (Dollars in thousands)                               |                    |         |
| Cash provided by (used in) operating activities      | \$ (937)           | \$ 308  |
| Cash used in investing activities                    | (82,480)           | (5,861) |
| Cash provided by financing activities                | 631                | 5,888   |
| Effect of exchange rate changes on cash              | (2,180)            | 53      |
| Net increase (decrease) in cash and cash equivalents | \$ (84,966)        | \$ 388  |

## Cash flow from operating activities

For the quarter ended March 31, 2015, our operating activities used \$0.9 million of net cash. This use of cash consisted primarily of net loss plus the effects of non-cash items and changes in working capital, which are described above. Our cash from operations fluctuates from quarter to quarter due to the timing of transactions and receipts and payments of cash.

For the quarter ended March 31, 2014, our operating activities provided \$0.3 million of net cash. This source of cash consisted primarily of net income plus the effects of non-cash items and changes in working capital.

#### Cash flow from investing activities

Net cash used in investing activities for the first quarter of 2015 increased to \$82.5 million from \$5.9 million for the first quarter of 2014. This increase was primarily due to \$78.0 million of cash paid for the acquisition of Cimatron in the first quarter of 2015 compared to \$2.0 million paid for acquisitions in the 2014 quarter. Cash flow used in investing activities also includes minority investments of less than 20% made through 3D Ventures, our venture investment initiative, in promising enterprises that we believe will benefit from or be powered by our technologies. During the first quarter of 2015, we invested \$0.6 million in these enterprises and ventures, compared to \$0.1 million in the first quarter of 2014.

#### Cash flow from financing activities

Financing activities provided net cash of \$0.6 million for the quarter ended March 31, 2015 compared to \$5.9 million in the 2014 period. Cash from financing activities for the first quarter of 2015 primarily included \$0.4 million of tax benefits from share-based payment arrangements. Cash from financing activities for the first quarter of 2014 was primarily from \$5.4 million of tax benefits from share-based payment arrangements.

#### Contractual commitments and off-balance sheet arrangements

#### Credit facilities

In October 2014, we entered into a \$150.0 million five-year revolving, unsecured credit facility with PNC Bank, as Administrative Agent, and certain other lenders. The agreement provides for advances in the initial aggregate principal amount of up to \$150.0 million. Subject to certain terms and conditions contained in the agreement, the Company may, at its option and subject to customary conditions, request an increase in the aggregate principal amount available under the credit facility by an additional \$75.0 million. As of March 31, 2015 and December 31, 2014, there was no outstanding balance on the credit facility.

## Capitalized lease obligations

Our capitalized lease obligations include lease agreements that we entered into during 2006 with respect to our Rock Hill facility and lease agreements assumed in the LayerWise acquisition. Our total capitalized lease obligations decreased to \$9.1 million at March 31, 2015 from \$9.4 million at December 31, 2014 primarily due to the normal scheduled timing of payments. Our outstanding capitalized lease obligations carrying values at March 31, 2015 and December 31, 2014 were as follows:

Table 9

| (Dollars in thousands)                           | March<br>31, 2015 | December<br>31, 2014 |
|--|-------------------|----------------------|
| Capitalized lease obligations:                   |                   |                      |
| Current portion of capitalized lease obligations | \$ 497            | \$ 529               |
| Capitalized lease obligations, long-term portion | 8,581             | 8,905                |
| Total capitalized lease obligations              | \$ 9,078          | \$ 9,434             |

## Other debt

In connection with our acquisition of LayerWise, we assumed a portion of LayerWise's outstanding bank debt, consisting of revolving credit facilities and term loans. The term loans bear interest at rates ranging from 1.34% to 5.40% as of March 31, 2015. The outstanding balance on the term loans was \$0.1 million at March 31, 2015 and December 31, 2014. There were no borrowings outstanding under the revolving credit facilities as of March 31, 2015 or December 31, 2014.

## Other contractual arrangements

Certain of our recent acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total amount of liabilities recorded for these earnouts at March 31, 2015 and December 31, 2014 was \$9.2 million.

As of March 31, 2015, we have supply commitments related to printer assemblies that total \$77.6 million compared to \$56.6 million at December 31, 2014.



The minority interest shareholders of a certain subsidiary have the right to require the Company to acquire their ownership interest under certain circumstances pursuant to a contractual arrangement and the Company has a similar call option under the same contractual terms. The amount of consideration under the put and call rights is not a fixed amount, but rather is dependent upon various valuation formulas and on future events, such as revenue and gross margin performance of the subsidiary through the date of exercise, as described in Note 15. Management estimates, assuming that the subsidiary owned by the Company at March 31, 2015, performs over the relevant future periods at their forecasted earnings levels, that these rights, if exercised, could require the Company, in future periods, to pay approximately \$8.8 million to the owners of such rights to acquire such ownership interests in the relevant subsidiary. This amount has been recorded as redeemable noncontrolling interests on the balance sheet at March 31, 2015.

#### Off-balance sheet arrangements

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

#### Financial instruments

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

We do not hedge or trade for 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 expense, net in our unaudited condensed consolidated statements of operations and comprehensive income (loss).

There were no foreign exchange contracts at March 31, 2015 or December 31, 2014. See Note 7 of the unaudited condensed consolidated financial statements.

Changes in the fair value of derivatives are recorded in interest and other expense, net, in our unaudited condensed consolidated statements of operations and 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 unaudited condensed consolidated balance sheets.

#### Recent Accounting Pronouncements

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

#### Critical Accounting Policies and Significant Estimates

For a discussion of our critical accounting policies and estimates, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Forward-Looking Statements

Certain statements made in this Form 10-Q that are not statements of historical or current facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the cautionary statements and risk factors set forth below and in our Form 10-K for the year ended December 31, 2014, as well as other statements made in this Form 10-Q that may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results expressed or implied by such forward-looking statements.

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or that include terms such as “believes,” “belief,” “expects,” “estimates”, “intends,” “anticipates” “plans” to be uncertain and forward-looking. Forward-looking statements may include comments as to our beliefs, expectations and projections as to future events and trends affecting our business. Forward-looking statements are based upon management’s beliefs, assumptions and current expectations concerning future events and trends, using information currently available, and are necessarily subject to uncertainties, many of which are outside of our control. The factors stated under the heading “Cautionary Statements and Risk Factors” set forth below and those described in our other SEC reports, including our Form 10-K for the year ended December 31, 2014, as well as other factors, could cause actual results to differ materially from those reflected or predicted in forward-looking statements.

Forward looking statements are not, and should not be relied upon as a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. We undertake no obligation and do not intend to update or revise any forward-looking statements, except as may be required by law.

Any forward-looking statement you read in this Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by the paragraphs under the headings “Forward-Looking Statements” and “Cautionary Statements and Risk Factors” in this Form 10-Q. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. You should specifically consider the factors identified or referred to in this Form 10-Q and our other SEC reports, including our Form 10-K for the year ended December 31, 2014, which would cause actual results to differ from those referred to in forward-looking statements.

## Cautionary Statements and Risk Factors

We recognize that we are subject to a number of risks and uncertainties that may affect our future performance. The risks and uncertainties described in Item 1A in our Form 10-K for the year ended December 31, 2014 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, results of operations and financial condition. If any of these risks actually occur, 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 may lose all or part of your investment in our common stock. The risks discussed in Item 1A in our Form 10-K for the year ended December 31, 2014 also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

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

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

For a discussion of market risks at December 31, 2014, refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in our Form 10-K for the year ended December 31, 2014. During the first quarter of 2015, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2014.



Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

As of March 31, 2015, 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 the 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. Based on this evaluation, including an evaluation of the rules referred to above in this Item 4, management has concluded that our disclosure controls and procedures were effective as of March 31, 2015 to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

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

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

The information set forth in Note 15 of the unaudited condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

### Item 1A. Risk Factors.

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

### Item 6. Exhibits.

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

- 3.1 Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 3.1 to Form 8-B filed on August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.)
- 3.2 Amendment to Certificate of Incorporation filed on May 23, 1995. (Incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-2/A, filed on May 25, 1995.)
- 3.3 Certificate of Designation of Rights, Preferences and Privileges of Preferred Stock. (Incorporated by reference to Exhibit 2 to Registrant's Registration Statement on Form 8-A filed on January 8, 1996.)
- 3.4 Certificate of Designation of the Series B Convertible Preferred Stock, filed with the Secretary of State of Delaware on May 2, 2003. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed on May 7, 2003.)

- 3.5 Certificate of Elimination of Series A Preferred Stock filed with the Secretary of State of Delaware on March 4, 2004. (Incorporated 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 September 9, 2006. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on September 9, 2006.)
- 3.7 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 19, 2004. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 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 March 31, 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.)
- 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, 2013. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on November 15, 2013.)

- 3.12 Amended and Restated By-Laws of 3D Systems Corporation (as adopted February 16, 2015). (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed on February 17, 2015.)
- 3.13 Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on May 21, 2013. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed on May 22, 2013.)
- 10.1 Appendix A to the Amended and Restated Incentive Stock Plan of 3D Systems Corporation effective March 11, 2015.
- 10.2 Amended and Restated 2004 Incentive Stock Plan of 3D Systems Corporation (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed February 5, 2015.)
- 10.3 Form of Restricted Stock Purchase Agreement. (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed on February 5, 2015.)
- 10.4 Form of Restricted Stock Unit Purchase Agreement. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on February 5, 2015.)
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated May 6, 2015.
- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated May 6, 2015.
- 32.1 Certification of Principal Executive Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated May 6, 2015.
- 32.2 Certification of Principal Financial Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated May 6, 2015.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

3D Systems Corporation

By /s/ Theodore A. Hull  
Theodore A. Hull  
Executive Vice President and Chief Financial Officer  
(principal financial officer)  
(duly authorized officer)

Date: May 6, 2015