

3D SYSTEMS CORP  
Form 10-Q  
July 31, 2014

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 June 30, 2014

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 July 23, 2014: 109,919,858

3D SYSTEMS CORPORATION

Quarterly Report on Form 10-Q for the

Quarter Ended June 30, 2014

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## PART I. — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

|                                                                                                   | June 30,<br>2014 | December<br>31,<br>2013 |
|---------------------------------------------------------------------------------------------------|------------------|-------------------------|
| (in thousands, except par value)                                                                  |                  |                         |
| <b>ASSETS</b>                                                                                     |                  |                         |
| Current assets:                                                                                   |                  |                         |
| Cash and cash equivalents                                                                         | \$ 570,262       | \$ 306,316              |
| Accounts receivable, net of allowance for doubtful accounts of \$11,154 (2014) and \$8,133 (2013) | 137,432          | 132,121                 |
| Inventories, net                                                                                  | 90,204           | 75,148                  |
| Prepaid expenses and other current assets                                                         | 14,105           | 7,203                   |
| Current deferred income tax asset                                                                 | 8,105            | 6,067                   |
| Total current assets                                                                              | 820,108          | 526,855                 |
| Property and equipment, net                                                                       | 59,671           | 45,208                  |
| Intangible assets, net                                                                            | 177,783          | 141,709                 |
| Goodwill                                                                                          | 404,073          | 370,066                 |
| Long term deferred income tax asset                                                               | 762              | 548                     |
| Other assets, net                                                                                 | 13,973           | 13,470                  |
| Total assets                                                                                      | \$ 1,476,370     | \$ 1,097,856            |
| <b>LIABILITIES AND EQUITY</b>                                                                     |                  |                         |
| Current liabilities:                                                                              |                  |                         |
| Current portion of capitalized lease obligations                                                  | \$ 194           | \$ 187                  |
| Accounts payable                                                                                  | 65,440           | 51,729                  |
| Accrued and other liabilities                                                                     | 28,543           | 28,430                  |
| Customer deposits                                                                                 | 7,075            | 5,466                   |
| Deferred revenue                                                                                  | 26,188           | 24,644                  |
| Total current liabilities                                                                         | 127,440          | 110,456                 |
| Long term portion of capitalized lease obligations                                                | 7,181            | 7,277                   |
| Convertible senior notes, net                                                                     | 11,585           | 11,416                  |
| Long term deferred income tax liability                                                           | 21,819           | 19,714                  |

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|                                                                                                      |              |              |
|------------------------------------------------------------------------------------------------------|--------------|--------------|
| Other liabilities                                                                                    | 22,506       | 15,201       |
| Total liabilities                                                                                    | 190,531      | 164,064      |
| Commitments and contingencies                                                                        |              |              |
| Stockholders' equity:                                                                                |              |              |
| Common stock, \$0.001 par value, authorized 220,000 shares; issued 110,752 (2014) and 103,818 (2013) | 111          | 104          |
| Additional paid-in capital                                                                           | 1,210,017    | 866,552      |
| Treasury stock, at cost: 645 shares (2014) and 600 shares (2013)                                     | (316)        | (286)        |
| Accumulated earnings                                                                                 | 67,489       | 60,487       |
| Accumulated other comprehensive income                                                               | 7,466        | 5,789        |
| Total 3D Systems Corporation stockholders' equity                                                    | 1,284,767    | 932,646      |
| Noncontrolling interest                                                                              | 1,072        | 1,146        |
| Total stockholders' equity                                                                           | 1,285,839    | 933,792      |
| Total liabilities and stockholders' equity                                                           | \$ 1,476,370 | \$ 1,097,856 |

See accompanying notes to condensed consolidated financial statements.

## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

|                                                                                  | Quarter Ended June 30, |           | Six Months Ended June 30, |            |
|----------------------------------------------------------------------------------|------------------------|-----------|---------------------------|------------|
|                                                                                  | 2014                   | 2013      | 2014                      | 2013       |
| (in thousands, except per share amounts)                                         |                        |           |                           |            |
| Revenue:                                                                         |                        |           |                           |            |
| Products                                                                         | \$ 99,984              | \$ 83,465 | \$ 201,178                | \$ 151,917 |
| Services                                                                         | 51,528                 | 37,322    | 98,092                    | 70,949     |
| Total revenue                                                                    | 151,512                | 120,787   | 299,270                   | 222,866    |
| Cost of sales:                                                                   |                        |           |                           |            |
| Products                                                                         | 51,232                 | 37,215    | 98,048                    | 66,960     |
| Services                                                                         | 27,882                 | 20,989    | 53,352                    | 39,846     |
| Total cost of sales                                                              | 79,114                 | 58,204    | 151,400                   | 106,806    |
| Gross profit                                                                     | 72,398                 | 62,583    | 147,870                   | 116,060    |
| Operating expenses:                                                              |                        |           |                           |            |
| Selling, general and administrative                                              | 50,322                 | 36,189    | 99,042                    | 65,643     |
| Research and development                                                         | 17,714                 | 9,598     | 34,949                    | 16,102     |
| Total operating expenses                                                         | 68,036                 | 45,787    | 133,991                   | 81,745     |
| Income from operations                                                           | 4,362                  | 16,796    | 13,879                    | 34,315     |
| Interest and other expense, net                                                  | 1,476                  | 2,662     | 2,524                     | 12,729     |
| Income before income taxes                                                       | 2,886                  | 14,134    | 11,355                    | 21,586     |
| Provision for income taxes                                                       | 694                    | 4,791     | 4,253                     | 6,360      |
| Net income                                                                       | 2,192                  | 9,343     | 7,102                     | 15,226     |
| Less: net income attributable to noncontrolling interest                         | (67)                   | —         | (100)                     | —          |
| Net income attributable to 3D Systems Corporation                                | \$ 2,125               | \$ 9,343  | \$ 7,002                  | \$ 15,226  |
| Other comprehensive income:                                                      |                        |           |                           |            |
| Pension adjustments, net of taxes                                                | \$ 26                  | \$ (13)   | \$ 45                     | \$ 16      |
| Foreign currency translation gain (loss) attributable to 3D Systems Corporation  | 1,645                  | (2,460)   | 1,632                     | (5,721)    |
| Total other comprehensive income (loss)                                          | 1,671                  | (2,473)   | 1,677                     | (5,705)    |
| Comprehensive income                                                             | 3,796                  | 6,870     | 8,679                     | 9,521      |
| Foreign currency translation (gain) loss attributable to noncontrolling interest | 24                     | —         | (2)                       | —          |
| Comprehensive income attributable to 3D Systems Corporation                      | \$ 3,820               | \$ 6,870  | \$ 8,677                  | \$ 9,521   |

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|                                                                                                     |         |         |         |         |
|-----------------------------------------------------------------------------------------------------|---------|---------|---------|---------|
| Net income per share available to 3D Systems Corporation common<br>stockholders — basic and diluted | \$ 0.02 | \$ 0.10 | \$ 0.07 | \$ 0.16 |
|-----------------------------------------------------------------------------------------------------|---------|---------|---------|---------|

See accompanying notes to condensed consolidated financial statements.

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## 3D SYSTEMS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|                                                                                   | Six Months Ended June 30, |           |
|-----------------------------------------------------------------------------------|---------------------------|-----------|
| (in thousands)                                                                    | 2014                      | 2013      |
| Cash flows from operating activities:                                             |                           |           |
| Net income                                                                        | \$ 7,102                  | \$ 15,226 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |           |
| Benefit of deferred income taxes                                                  | (13,249)                  | (4,481)   |
| Depreciation and amortization                                                     | 24,390                    | 13,328    |
| Non-cash interest on convertible notes                                            | 193                       | 753       |
| Provision for bad debts                                                           | 3,141                     | 601       |
| Stock-based compensation                                                          | 15,638                    | 5,346     |
| Loss on the disposition of property and equipment                                 | 296                       | 3         |
| Deferred interest income                                                          | —                         | (1,018)   |
| Loss on conversion of convertible debt                                            | —                         | 9,253     |
| Changes in operating accounts:                                                    |                           |           |
| Accounts receivable                                                               | (7,013)                   | (26,801)  |
| Inventories                                                                       | (15,711)                  | (9,900)   |
| Prepaid expenses and other current assets                                         | (6,630)                   | (258)     |
| Accounts payable                                                                  | 12,983                    | 253       |
| Accrued and other liabilities                                                     | (3,029)                   | (2,744)   |
| Customer deposits                                                                 | 1,818                     | 2,055     |
| Deferred revenue                                                                  | 1,544                     | 4,069     |
| Other operating assets and liabilities                                            | (2,143)                   | (2,290)   |
| Net cash provided by operating activities                                         | 19,330                    | 3,395     |
| Cash flows from investing activities:                                             |                           |           |
| Purchases of property and equipment                                               | (8,965)                   | (3,751)   |
| Additions to license and patent costs                                             | (382)                     | (1,313)   |
| Proceeds from disposition of property and equipment                               | —                         | 1,882     |
| Cash paid for acquisitions, net of cash assumed                                   | (53,526)                  | (86,199)  |
| Other investing activities                                                        | (300)                     | (1,500)   |
| Net cash used in investing activities                                             | (63,173)                  | (90,881)  |
| Cash flows from financing activities:                                             |                           |           |
| Tax benefits from share-based payment arrangements                                | 6,368                     | 9,398     |
| Proceeds from issuance of common stock                                            | 299,749                   | 272,081   |

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|                                                                         |            |            |
|-------------------------------------------------------------------------|------------|------------|
| Proceeds from exercise of stock options and restricted stock, net       | 1,437      | 435        |
| Cash disbursed in lieu of fractional shares related to stock split      | —          | (177)      |
| Repayment of capital lease obligations                                  | (88)       | (95)       |
| Net cash provided by financing activities                               | 307,466    | 281,642    |
| Effect of exchange rate changes on cash                                 | 323        | (760)      |
| Net increase in cash and cash equivalents                               | 263,946    | 193,396    |
| Cash and cash equivalents at the beginning of the period                | 306,316    | 155,859    |
| Cash and cash equivalents at the end of the period                      | \$ 570,262 | \$ 349,255 |
| Interest payments                                                       | \$ 608     | \$ 979     |
| Income tax payments                                                     | 9,594      | 1,601      |
| Transfer of equipment from inventory to property and equipment, net (a) | 5,454      | 1,946      |
| Transfer of equipment to inventory from property and equipment, net (b) | 3,447      | 441        |
| Stock issued for acquisitions of businesses                             | 20,250     | 6,750      |
| Stock issued for conversions of 5.50% senior convertible notes          | —          | 4,433      |
| Notes redeemed for shares of common stock                               | —          | 63,420     |

(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 | 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>Interest | 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>2013 | 103,818      | \$ 104                  | \$ 866,552                       | 600            | \$ (286) | \$ 60,487               | \$ 5,789                                   | \$ 932,646                                                    | \$ 1,146                                                   | \$ 933,792                       |
| Tax benefits<br>from<br>share-based<br>payment<br>arrangements               | —            | —                       | 6,368                            | —              | —        | —                       | —                                          | 6,368                                                         | —                                                          | 6,368                            |
| Issuance<br>(repurchase) of<br>restricted<br>stock, net                      | 634          | 1                       | 1,466                            | 45             | (30)     | —                       | —                                          | 1,437                                                         | —                                                          | 1,437                            |
| Issuance of<br>stock for<br>acquisitions                                     | 350          | —                       | 20,250                           | —              | —        | —                       | —                                          | 20,250                                                        | —                                                          | 20,250                           |
| Issuance of<br>stock for<br>equity raise                                     | 5,950        | 6                       | 299,743                          | —              | —        | —                       | —                                          | 299,749                                                       | —                                                          | 299,749                          |
| Stock-based<br>compensation<br>expense                                       | —            | —                       | 15,638                           | —              | —        | —                       | —                                          | 15,638                                                        | —                                                          | 15,638                           |
| Net income                                                                   | —            | —                       | —                                | —              | —        | 7,002                   | —                                          | 7,002                                                         | 100                                                        | 7,102                            |
| Noncontrolling<br>interest for<br>business<br>combinations                   | —            | —                       | —                                | —              | —        | —                       | —                                          | —                                                             | (176)                                                      | (176)                            |

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|                                         |         |        |              |     |          |           |              |              |          |              |
|-----------------------------------------|---------|--------|--------------|-----|----------|-----------|--------------|--------------|----------|--------------|
| Pension adjustment                      | —       | —      | —            | —   | —        | —         | 45           | 45           | —        | 45           |
| Foreign currency translation adjustment | —       | —      | —            | —   | —        | —         | 1,632        | 1,632        | 2        | 1,634        |
| Balance at June 30, 2014                | 110,752 | \$ 111 | \$ 1,210,017 | 645 | \$ (316) | \$ 67,489 | \$ 7,466 (a) | \$ 1,284,767 | \$ 1,072 | \$ 1,285,839 |

(a) Accumulated other comprehensive income of \$7,466 consists of foreign currency translation gain of \$8,324, a \$173 gain on the liquidation of a non-US entity and a cumulative unrealized pension loss of \$1,031.

See accompanying notes to condensed consolidated financial statements.

(b)

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, 2013.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the quarter and six months ended June 30, 2014 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 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 May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in amounts that reflect the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, may require more judgment and estimates within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

## (2) Acquisitions

The Company completed one acquisition in the second quarter of 2014, which is discussed below.

On April 2, 2014, the Company acquired 100% of the outstanding shares and voting rights of Medical Modeling Inc. Medical Modeling Inc. is a provider of 3D printing-centric personalized surgical treatments and patient specific medical devices, including virtual surgical planning, personalized medical devices and clinical transfer tools. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$69,026 of which \$51,526 was paid in cash and \$17,500 was paid in shares of the Company's stock. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933. The operations of Medical Modeling Inc. have been integrated into the Company's 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 second quarter 2014 acquisitions. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

The acquisition completed in the second 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 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 June 30, 2014 as follows:

| (in thousands)                     | 2014      |
|------------------------------------|-----------|
| Fixed assets                       | \$ 2,737  |
| Other intangible assets, net       | 34,300    |
| Goodwill                           | 44,181    |
| Other assets, net of cash acquired | 2,042     |
| Liabilities                        | (14,234)  |
| Net assets acquired                | \$ 69,026 |

#### Subsequent Acquisitions

On April 16, 2014, the Company entered into a definitive agreement to acquire Robtec, an additive manufacturing service bureau and distributor of 3D printing and scanning products located in Sao Paulo, Brazil. Under the terms of the agreement, the Company will acquire 70% of the shares of Robtec at closing and the remainder of the shares on the fifth anniversary of the closing. The acquisition is expected to close in the second half of 2014.

On July 30, 2014, the Company entered into a definitive agreement to acquire Simbionix USA Corporation ("Simbionix") for \$120,000 in cash, subject to customary closing adjustments. Simbionix is a provider of proprietary, high definition, 3D virtual reality surgical simulation, training and educational products for personalized medicine. Simbionix is headquartered in Cleveland, Ohio and has a research and development center in Israel. Under the terms of the agreement, subject to customary closing conditions, the Company will acquire 100% of the outstanding shares of Simbionix.

#### (3) Inventories

Components of inventories, net at June 30, 2014 and December 31, 2013 were as follows:

| (in thousands)           | 2014      | 2013      |
|--------------------------|-----------|-----------|
| Raw materials            | \$ 42,784 | \$ 34,144 |
| Work in process          | 2,031     | 3,050     |
| Finished goods and parts | 45,389    | 37,954    |
| Inventories, net         | \$ 90,204 | \$ 75,148 |

#### (4) Property and Equipment

Property and equipment at June 30, 2014 and December 31, 2013 were as follows:

| (in thousands)                                  | 2014      | 2013      | Useful Life (in years) |
|-------------------------------------------------|-----------|-----------|------------------------|
| Land                                            | \$ 541    | \$ 541    | N/A                    |
| Building                                        | 9,315     | 9,315     | 25                     |
| Machinery and equipment                         | 67,153    | 56,962    | 3-7                    |
| Capitalized software — ERP                      | 3,970     | 3,872     | 5                      |
| Office furniture and equipment                  | 3,916     | 3,586     | 5                      |
| Leasehold improvements                          | 10,344    | 9,395     | Life of lease (a)      |
| Rental equipment                                | 626       | —         | 5                      |
| Construction in progress                        | 12,159    | 4,014     | N/A                    |
| Total property and equipment                    | 108,024   | 87,685    |                        |
| Less: Accumulated depreciation and amortization | (48,353)  | (42,477)  |                        |
| Total property and equipment, net               | \$ 59,671 | \$ 45,208 |                        |

<sup>(a)</sup> 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 quarter and six months ended June 30, 2014 was \$3,456 and \$6,492, respectively, compared to \$2,251 and \$4,432, respectively, for the quarter and six months ended June 30, 2013.

## (5) Intangible Assets

Intangible assets other than goodwill at June 30, 2014 and December 31, 2013 were as follows:

|                                      | 2014                 |                          |            | 2013       |                          |            | Useful Life (in years) | Weighted Average Useful Life Remaining (in years) |
|--------------------------------------|----------------------|--------------------------|------------|------------|--------------------------|------------|------------------------|---------------------------------------------------|
|                                      | (in thousands) Gross | Accumulated Amortization | Net        | Gross      | Accumulated Amortization | Net        |                        |                                                   |
| Intangible assets with finite lives: |                      |                          |            |            |                          |            |                        |                                                   |
| Licenses                             | \$ 5,875             | \$ (5,875)               | \$ —       | \$ 5,875   | \$ (5,875)               | \$ —       |                        |                                                   |
| Patent costs                         | 22,211               | (7,195)                  | 15,016     | 21,545     | (5,960)                  | 15,585     | 6 - 7                  | 3                                                 |
| Acquired technology                  | 44,591               | (15,410)                 | 29,181     | 30,095     | (13,615)                 | 16,480     | 5 - 10                 | 5                                                 |
| Internally developed software        | 17,862               | (13,583)                 | 4,279      | 18,097     | (12,863)                 | 5,234      | 5                      | <1                                                |
| Customer relationships               | 113,067              | (28,021)                 | 85,046     | 95,793     | (18,283)                 | 77,510     | 5 - 13                 | 5                                                 |
| Non-compete agreements               | 21,010               | (8,758)                  | 12,252     | 16,848     | (6,666)                  | 10,182     | 3 - 11                 | 3                                                 |
| Trade names                          | 10,708               | (3,459)                  | 7,249      | 9,302      | (2,211)                  | 7,091      | 2 - 10                 | 3                                                 |
| Other                                | 23,668               | (4,818)                  | 18,850     | 11,598     | (4,081)                  | 7,517      | <1 - 7                 | 2                                                 |
| Intangibles with indefinite lives:   |                      |                          |            |            |                          |            |                        |                                                   |
| Trademarks                           | 5,910                | —                        | 5,910      | 2,110      | —                        | 2,110      | N/A                    | N/A                                               |
| Total intangible assets              | \$ 264,902           | \$ (87,119)              | \$ 177,783 | \$ 211,263 | \$ (69,554)              | \$ 141,709 | <1 - 13                | 4                                                 |

For the six months ended June 30, 2014 and 2013, the Company capitalized \$382 and \$1,313, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

Amortization expense for intangible assets for the quarter and six months ended June 30, 2014 was \$8,211 and \$17,414, respectively, compared to \$5,084 and \$8,896, respectively, for the quarter and six months ended June 30, 2013.

Annual amortization expense for intangible assets for 2014, 2015, 2016, 2017 and 2018 is expected to be \$33,517, \$24,496, \$21,784, \$18,886 and \$14,024, respectively.

(6) Accrued and Other Liabilities

Accrued liabilities at June 30, 2014 and December 31, 2013 were as follows:

| (in thousands)                           | 2014      | 2013      |
|------------------------------------------|-----------|-----------|
| Compensation and benefits                | \$ 14,700 | \$ 13,197 |
| Vendor accruals                          | 5,691     | 5,449     |
| Accrued professional fees                | 582       | 493       |
| Accrued taxes                            | 4,684     | 1,834     |
| Royalties payable                        | 810       | 750       |
| Accrued interest                         | 74        | 73        |
| Accrued earnouts related to acquisitions | 1,414     | 5,872     |
| Accrued other                            | 588       | 762       |
| Total                                    | \$ 28,543 | \$ 28,430 |

Other liabilities at June 30, 2014 and December 31, 2013 were as follows:

| (in thousands)                             | 2014      | 2013      |
|--------------------------------------------|-----------|-----------|
| Defined benefit pension obligation         | \$ 5,830  | \$ 5,861  |
| Long term tax liability                    | 90        | 90        |
| Long term earnouts related to acquisitions | 8,706     | 4,206     |
| Long term deferred revenue                 | 5,038     | 4,218     |
| Other long term liabilities                | 2,842     | 826       |
| Total                                      | \$ 22,506 | \$ 15,201 |

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

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

There were no foreign currency contracts outstanding at June 30, 2014 or at December 31, 2013.

The total impact of foreign currency transactions on the condensed consolidated statements of operations and comprehensive income for the quarter and six months ended June 30, 2014 reflected a loss of \$1,140 and a loss of \$1,345, respectively, compared to a gain of \$203 and a loss of \$762, respectively, for the quarter and six months ended June 30, 2013.

#### (8) Borrowings

# 5.5% senior convertible notes and interest expense

In November 2011, the Company issued \$152,000 of 5.50% senior convertible notes due December 2016. These notes are senior unsecured obligations and rank equal in right of payment with all the Company's existing and future senior unsecured indebtedness. The notes accrue interest at the rate of 5.50% per year payable in cash semi-annually on June 15 and December 15 of each year.

The following table summarizes the principal amounts and related unamortized discount on convertible notes at June 30, 2014 and December 31, 2013:

| (in thousands)                            | 2014      | 2013      |
|-------------------------------------------|-----------|-----------|
| Principal amount of convertible notes     | \$ 12,540 | \$ 12,540 |
| Unamortized discount on convertible notes | (955)     | (1,124)   |
| Net carrying value                        | \$ 11,585 | \$ 11,416 |

These notes are convertible into shares of the Company's Common Stock at a conversion rate equivalent to 69.9032 shares of Common Stock per \$1 principal amount of notes, which represents a conversion rate of approximately \$14.31 per share of Common Stock. The conversion rate is subject to adjustment in certain circumstances as more fully set forth in the indenture covering the notes. Conditions for conversion have been satisfied and the notes are convertible. No notes were converted during the first six months of 2014.

The remaining notes are convertible into approximately 876 shares of common stock. In certain circumstances provided for in the indenture, the number of shares of common stock issuable upon conversion of the notes may be increased, and with it the aggregate principal amount of the notes. Unless earlier repurchased or converted, the notes will mature on December 15, 2016.

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

Upon certain terms and conditions, the Company may elect to satisfy its conversion obligation with respect to the notes by paying cash, in whole or in part, for specified aggregate principal amount of the notes. In the event of certain types of fundamental changes, the Company will increase the conversion rate by a number of additional shares, up to a maximum of 1,118 shares, which equates to a conversion price of approximately \$11.22 per share.

# (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. Stock-based compensation expense for the quarter and six months ended June 30, 2014 and 2013 was as follows:

|                         | Quarter Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|-------------------------|---------------------------|----------|------------------------------|----------|
| (in thousands)          | 2014                      | 2013     | 2014                         | 2013     |
| Restricted stock awards | \$ 8,362                  | \$ 3,125 | \$ 15,638                    | \$ 5,346 |

The number of shares of restricted common stock awarded and the weighted average fair value per share during the quarter and six months ended June 30, 2014 and 2013 were as follows:

|                                                                            | Quarter Ended June 30,<br>2014    |                                      | 2013              |                                      |
|----------------------------------------------------------------------------|-----------------------------------|--------------------------------------|-------------------|--------------------------------------|
| (in thousands, except per share amounts)                                   | Shares<br>Awarded                 | Weighted<br>Average<br>Fair<br>Value | Shares<br>Awarded | Weighted<br>Average<br>Fair<br>Value |
| Restricted stock awards:                                                   |                                   |                                      |                   |                                      |
| Granted under the 2004 Incentive Stock Plan                                | 143                               | \$ 50.31                             | 68                | \$ 46.84                             |
| Granted under the 2004 Restricted Stock Plan for<br>Non-Employee Directors | 17                                | 49.26                                | 12                | 48.43                                |
| Total restricted stock awards                                              | 160                               | \$ 50.20                             | 80                | \$ 47.09                             |
|                                                                            | Six Months Ended June 30,<br>2014 |                                      | 2013              |                                      |
| (in thousands, except per share amounts)                                   |                                   |                                      |                   |                                      |

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|                                                                            | Shares<br>Awarded | Weighted<br>Average<br>Fair<br>Value | Shares<br>Awarded | Weighted<br>Average<br>Fair<br>Value |
|----------------------------------------------------------------------------|-------------------|--------------------------------------|-------------------|--------------------------------------|
| Restricted stock awards:                                                   |                   |                                      |                   |                                      |
| Granted under the 2004 Incentive Stock Plan                                | 376               | \$ 69.00                             | 291               | \$ 39.14                             |
| Granted under the 2004 Restricted Stock Plan for<br>Non-Employee Directors | 17                | 49.26                                | 12                | 48.43                                |
| Total restricted stock awards                                              | 393               | \$ 68.15                             | 303               | \$ 39.52                             |

During the six months ended June 30, 2014, the Company granted restricted stock awards covering 376 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan. Of the 376 shares granted in the first six months of 2014, 30 shares were awarded to executive officers of the Company and 138 shares remained subject to acceptance at June 30, 2014. In the first six months of 2013, the Company granted restricted stock awards covering 291 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan, of which 27 shares were awarded to executive officers of the Company.

In the first six months of 2014 and 2013, respectively, the Company granted 17 and 12 shares, respectively, of common stock pursuant to the Company's 2004 Restricted Stock Plan for Non-Employee Directors. Stock compensation expense for Non-Employee Directors for the first six months of 2014 and 2013 was \$849 and \$600, respectively.

## (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 for the quarter and six months ended June 30, 2014 and 2013:

|                | Quarter<br>Ended June<br>30, |       | Six Months<br>Ended June<br>30, |        |
|----------------|------------------------------|-------|---------------------------------|--------|
| (in thousands) | 2014                         | 2013  | 2014                            | 2013   |
| Service cost   | \$ 43                        | \$ 24 | \$ 88                           | \$ 47  |
| Interest cost  | 60                           | 48    | 122                             | 97     |
| Total          | \$ 103                       | \$ 72 | \$ 210                          | \$ 144 |

## (11) Earnings Per Share

The Company presents basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income 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 by the weighted average number of common and common equivalent shares outstanding during the applicable period.

The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares at June 30, 2014 and 2013:

|                                          | Quarter Ended June<br>30, |      | Six Months Ended<br>June 30, |      |
|------------------------------------------|---------------------------|------|------------------------------|------|
| (in thousands, except per share amounts) | 2014                      | 2013 | 2014                         | 2013 |
| Numerator:                               |                           |      |                              |      |

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|                                                                                                |          |          |          |           |
|------------------------------------------------------------------------------------------------|----------|----------|----------|-----------|
| Net income attributable to 3D Systems Corporation – numerator for basic net earnings per share | \$ 2,125 | \$ 9,343 | \$ 7,002 | \$ 15,226 |
| Add: Effect of dilutive securities                                                             |          |          |          |           |
| Interest expense on 5.50% convertible notes (after-tax)                                        | —        | —        | —        | —         |
| Numerator for diluted earnings per share                                                       | \$ 2,125 | \$ 9,343 | \$ 7,002 | \$ 15,226 |
| Denominator:                                                                                   |          |          |          |           |
| Weighted average shares – denominator for basic net earnings per share                         | 106,407  | 96,248   | 104,985  | 94,047    |
| Add: Effect of dilutive securities                                                             |          |          |          |           |
| 5.50% convertible notes (after-tax)                                                            | —        | —        | —        | —         |
| Denominator for diluted earnings per share                                                     | 106,407  | 96,248   | 104,985  | 94,047    |
| Earnings per share                                                                             |          |          |          |           |
| Basic and diluted                                                                              | \$ 0.02  | \$ 0.10  | \$ 0.07  | \$ 0.16   |
| Interest expense excluded from diluted earnings per share calculation (a)                      | \$ 206   | \$ 511   | \$ 362   | \$ 1,508  |
| 5.50% Convertible notes shares excluded from diluted earnings per share calculation (a)        | 876      | 1,925    | 876      | 2,852     |

(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 June 30, 2014, average common shares for basic and diluted earnings per share were 106,407 and basic and diluted earnings per share were \$0.02. For the quarter ended June 30, 2013, average common shares for basic and diluted earnings per share were 96,248 and basic and diluted earnings per share were \$0.10.

For the six months ended June 30, 2014, average common shares for basic and diluted earnings per share were 104,985, and basic and diluted earnings per share were \$0.07. For the six months ended June 30, 2013, average common shares for basic and diluted earnings per share were 94,047 and basic and diluted earnings per share were \$0.16.

## (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 and senior convertible notes. 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 June 30, 2014 |         |         |            |
|-------------------------------|---------------------------------------------|---------|---------|------------|
|                               | Level 1                                     | Level 2 | Level 3 | Total      |
| Cash equivalents (a)          | \$ 493,539                                  | \$ —    | \$ —    | \$ 493,539 |

- (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.

The Company did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the quarter and six months ended June 30, 2014.

The carrying value of the senior convertible notes as of June 30, 2014 and December 31, 2013 was \$11,585 and \$11,416, respectively, net of the unamortized discount. As of June 30, 2014 and December 31, 2013, the estimated fair value of the senior convertible notes was \$12,142 and \$12,035, respectively, based on quoted market prices. The Company determined the fair value of the convertible notes utilizing transactions in the listed markets for identical or similar liabilities. As such, the fair value of the senior convertible notes is considered Level 2.

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 June 30, 2014 or December 31, 2013.

#### (13) Income Taxes

The Company's effective tax rates were 24.0% and 37.5% for the quarter and six months ended June 30, 2014, respectively, compared to 33.9% and 29.5% for the quarter and six months ended June 30, 2013.

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 2010 to 2013 are 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 France (2011), Germany (2011), Japan (2007), Italy (2009), Switzerland (2008), the United Kingdom (2009), the Netherlands (2007), Australia (2009), Korea (2008), India (2012), and China (2013).

#### (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 Switzerland that operates a research and production facility, subsidiaries in France that operate a manufacturing facility and sales and service offices, and sales and services offices operated by subsidiaries in Europe (Germany, the United Kingdom, Italy and the Netherlands) 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 are based on the location of the selling entity.

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

| (in thousands)                       | Quarter Ended June 30, |            | Six Months Ended June 30, |            |
|--------------------------------------|------------------------|------------|---------------------------|------------|
|                                      | 2014                   | 2013       | 2014                      | 2013       |
| Revenue from unaffiliated customers: |                        |            |                           |            |
| United States                        | \$ 78,895              | \$ 67,870  | \$ 146,927                | \$ 125,023 |
| Germany                              | 19,562                 | 13,286     | 43,387                    | 25,197     |
| Other Europe                         | 22,453                 | 18,569     | 46,192                    | 35,238     |
| Asia Pacific                         | 30,602                 | 21,062     | 62,764                    | 37,408     |
| Total                                | \$ 151,512             | \$ 120,787 | \$ 299,270                | \$ 222,866 |

The Company's revenue from unaffiliated customers by type was as follows:

|                             | Quarter Ended June 30, |            | Six Months Ended June 30, |            |
|-----------------------------|------------------------|------------|---------------------------|------------|
| (in thousands)              | 2014                   | 2013       | 2014                      | 2013       |
| Printers and other products | \$ 61,948              | \$ 54,190  | \$ 122,701                | \$ 93,913  |
| Materials                   | 38,036                 | 29,275     | 78,477                    | 58,004     |
| Services                    | 51,528                 | 37,322     | 98,092                    | 70,949     |
| Total revenue               | \$ 151,512             | \$ 120,787 | \$ 299,270                | \$ 222,866 |

Intercompany sales were as follows:

|                | Quarter Ended June 30, 2014 |           |              |              |           |
|----------------|-----------------------------|-----------|--------------|--------------|-----------|
|                | Intercompany Sales to       |           |              |              |           |
|                | United States               | Germany   | Other Europe | Asia Pacific | Total     |
| (in thousands) |                             |           |              |              |           |
| United States  | \$ —                        | \$ 9,925  | \$ 4,710     | \$ 3,450     | \$ 18,085 |
| Germany        | 446                         | —         | 1,350        | —            | 1,796     |
| Other Europe   | 10,932                      | 548       | 676          | 891          | 13,047    |
| Asia Pacific   | 331                         | (15)      | —            | 521          | 837       |
| Total          | \$ 11,709                   | \$ 10,458 | \$ 6,736     | \$ 4,862     | \$ 33,765 |

|                | Quarter Ended June 30, 2013 |          |              |              |           |
|----------------|-----------------------------|----------|--------------|--------------|-----------|
|                | Intercompany Sales to       |          |              |              |           |
|                | United States               | Germany  | Other Europe | Asia Pacific | Total     |
| (in thousands) |                             |          |              |              |           |
| United States  | \$ —                        | \$ 4,658 | \$ 4,234     | \$ 1,075     | \$ 9,967  |
| Germany        | 386                         | —        | 447          | —            | 833       |
| Other Europe   | 5,292                       | 674      | 1,097        | 93           | 7,156     |
| Asia Pacific   | 347                         | 261      | 67           | 167          | 842       |
| Total          | \$ 6,025                    | \$ 5,593 | \$ 5,845     | \$ 1,335     | \$ 18,798 |

| Six Months Ended June 30, 2014 |               |           |              |              |           |
|--------------------------------|---------------|-----------|--------------|--------------|-----------|
| Intercompany Sales to          |               |           |              |              |           |
| (in thousands)                 | United States | Germany   | Other Europe | Asia Pacific | Total     |
| United States                  | \$ —          | \$ 20,862 | \$ 9,657     | \$ 5,796     | \$ 36,315 |
| Germany                        | 855           | —         | 2,828        | —            | 3,683     |
| Other Europe                   | 20,975        | 1,878     | 1,008        | 1,446        | 25,307    |
| Asia Pacific                   | 813           | (15)      | —            | 1,203        | 2,001     |
| Total                          | \$ 22,643     | \$ 22,725 | \$ 13,493    | \$ 8,445     | \$ 67,306 |

| Six Months Ended June 30, 2013 |               |           |              |              |           |
|--------------------------------|---------------|-----------|--------------|--------------|-----------|
| Intercompany Sales to          |               |           |              |              |           |
| (in thousands)                 | United States | Germany   | Other Europe | Asia Pacific | Total     |
| United States                  | \$ —          | \$ 10,441 | \$ 7,838     | \$ 2,199     | \$ 20,478 |
| Germany                        | 704           | —         | 1,806        | —            | 2,510     |
| Other Europe                   | 9,223         | 957       | 1,175        | 124          | 11,479    |
| Asia Pacific                   | 872           | 641       | 67           | 422          | 2,002     |
| Total                          | \$ 10,799     | \$ 12,039 | \$ 10,886    | \$ 2,745     | \$ 36,469 |

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

| (in thousands)            | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|---------------------------|------------------------|-----------|---------------------------|-----------|
|                           | 2014                   | 2013      | 2014                      | 2013      |
| Income from operations:   |                        |           |                           |           |
| United States             | \$ (7,036)             | \$ 11,643 | \$ (9,066)                | \$ 22,912 |
| Germany                   | 451                    | (318)     | 648                       | 343       |
| Other Europe              | 2,124                  | 235       | 4,525                     | 2,001     |
| Asia Pacific              | 9,455                  | 5,476     | 18,522                    | 9,793     |
| Subtotal                  | 4,994                  | 17,036    | 14,629                    | 35,049    |
| Inter-segment elimination | (632)                  | (240)     | (750)                     | (734)     |
| Total                     | \$ 4,362               | \$ 16,796 | \$ 13,879                 | \$ 34,315 |

|                |          |              |
|----------------|----------|--------------|
|                | June 30, | December 31, |
| (in thousands) | 2014     | 2013         |

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Assets:

|               |              |              |
|---------------|--------------|--------------|
| United States | \$ 1,240,270 | \$ 870,208   |
| Germany       | 45,563       | 38,685       |
| Other Europe  | 116,516      | 120,562      |
| Asia Pacific  | 74,021       | 68,401       |
| Total         | \$ 1,476,370 | \$ 1,097,856 |

|                            | June 30,   | December   |
|----------------------------|------------|------------|
| (in thousands)             | 2014       | 31,        |
|                            |            | 2013       |
| Cash and cash equivalents: |            |            |
| United States              | \$ 546,730 | \$ 286,377 |
| Germany                    | 3,591      | 3,441      |
| Other Europe               | 10,386     | 8,915      |
| Asia Pacific               | 9,555      | 7,583      |
| Total                      | \$ 570,262 | \$ 306,316 |

(15) Commitments and Contingencies

The Company leases office space under various non-cancelable operating leases. Rent expense under operating leases was \$2,598 and \$4,910 for the quarter and six months ended June 30, 2014 compared to \$1,440 and \$2,818 for the quarter and six months ended June 30, 2013.

The Company has supply commitments for printer assemblies that total \$65,621 at June 30, 2014, compared to \$41,091 at December 31, 2013.

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 June 30, 2014 and December 31, 2013 was \$10,120 and \$5,578, respectively.

Litigation

In 2008, DSM Desotech Inc. filed a complaint, which it has subsequently amended, in an action titled DSM Desotech Inc. v. 3D Systems Corporation and 3D Systems, Inc. in the United States District Court for the Northern District of Illinois (Eastern Division) asserting that the Company engaged in anticompetitive behavior with respect to resins used in certain of its stereolithography machines. The complaint further asserted that the Company infringed upon two of DSM Desotech's patents relating to stereolithography machines.

On January 31, 2013, the Court granted the Company summary judgment for all seven of the counts alleging anticompetitive behavior. On February 28, 2013, the parties filed a stipulation of dismissal of the remaining counts, and the Court dismissed those counts in connection with the settlement of these portions of the litigation. On March 29, 2013, DSM Desotech filed a notice of appeal to the United States Court of Appeals for the Federal Circuit regarding the Court's granting of summary judgment in favor of the Company on all seven counts of alleged anticompetitive behavior. On April 18, 2014, the Federal Circuit affirmed the grant of summary judgment for all seven counts, dismissing all remaining claims asserted by DSM Desotech. DSM Desotech took no further action in response to the Federal Circuit's decision in favor of the Company, and the case has completely concluded.

On November 20, 2012, the Company filed a complaint in an action titled 3D Systems, Inc. v. Formlabs, Inc. and Kickstarter, Inc. in the United States District Court for the District of South Carolina (Rock Hill Division) asserting that Formlabs' and Kickstarter's sales of the Form 1 3D printer infringed on one of the Company's patents relating to

stereolithography machines. Formlabs and Kickstarter filed a motion to dismiss or transfer venue on February 25, 2013, and the Company filed a first amended complaint on March 8, 2013. On May 8, 2013, the Court granted the parties' joint motion to stay the case until September 3, 2013 to enable the parties to continue settlement discussions. On November 8, 2013, the Company voluntarily dismissed the South Carolina complaint and filed a new complaint in the United States District Court for the Southern District of New York asserting that Formlabs' sales of the Form 1 3D printer infringed on eight of the Company's patents relating to stereolithography machines. On December 20, 2013, Formlabs filed a motion to dismiss the Company's claims of indirect and willful infringement, and the Company filed a memorandum in opposition on January 6, 2014. Formlabs filed a reply on January 16, 2014. The Court ruled on the motion to dismiss on May 12, 2014, granting in part and dismissing in part Formlabs' motion. The Company filed a first amended complaint on May 16, 2014, and Formlabs filed its answer on June 2, 2014. The Company intends to pursue claims for damages against Formlabs.

The Company is also involved in various other legal matters incidental to its business. The Company believes, after consulting with counsel, that the disposition of these other legal matters will not have a material effect on 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

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

| (in thousands)               | Foreign<br>currency<br>translation<br>adjustment | Defined<br>benefit<br>pension<br>plan | Liquidation<br>of Non-US<br>Entity | Total    |
|------------------------------|--------------------------------------------------|---------------------------------------|------------------------------------|----------|
| Balance at December 31, 2013 | \$ 6,692                                         | \$ (1,076)                            | \$ 173                             | \$ 5,789 |
| Other comprehensive income   | 1,632                                            | 45                                    | —                                  | 1,677    |
| Balance at June 30, 2014     | \$ 8,324                                         | \$ (1,031)                            | \$ 173                             | \$ 7,466 |

The amounts presented above are included in other comprehensive income 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 Interest

As of June 30, 2014, the Company owned 95% of the capital and voting rights of Phenix Systems, a global provider of direct metal selective laser sintering 3D printers based in Riom, France. Phenix's operating results are included in these condensed consolidated financial statements. In accordance with ASC 810, "Consolidation," the carrying value of the noncontrolling interest is reported in the condensed consolidated balance sheets as a separate component of equity and condensed consolidated net income has been adjusted to report the net income attributable to the noncontrolling interest.

## (18) Subsequent Event

On July 30, 2014, the Company entered into a definitive agreement to acquire Simbionix USA Corporation ("Simbionix") for \$120,000 in cash, subject to customary closing adjustments. Simbionix is a provider of proprietary, high definition, 3D virtual reality surgical simulation, training and educational products for personalized medicine. Simbionix is headquartered in Cleveland, Ohio and has a research and development center in Israel. Under the terms

of the agreement, subject to customary closing conditions, the Company will acquire 100% of the outstanding shares of Simbionix.

## 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 are a leading global provider of 3D printing centric design-to-manufacturing solutions, including 3D printers, print materials and on-demand custom parts for professionals and consumers alike. Our materials include plastics, metals, ceramics and edibles. We also provide integrated 3D scan-based design, freeform modeling and inspection tools and an integrated 3D planning and printing digital thread for personalized surgery and patient specific medical devices. Our products and services replace and complement traditional methods and reduce the time and cost of designing new products by printing real parts directly from digital input. These solutions are used to rapidly design, create, communicate, prototype or produce functional parts and assemblies, empowering customers to manufacture the future.

We derive our consolidated revenue primarily from the sales of our printers, the sales of the related print materials and services, the sales of our Quickparts brand on-demand parts services and the sales of perceptual devices and software.

### Recent Developments

In April, we continued to broaden and enhance our 3D printing ecosystem and expanded our 3D printing digital thread with the acquisition of Medical Modeling Inc. Medical Modeling utilizes 3D printing-centric personalized surgery and patient-specific medical device solutions with FDA-cleared manufacturing processes to provide surgical planning tools, surgical guides and kits, and other design services.



In April, we entered into a definitive agreement to acquire Robtec, an additive manufacturing service bureau and distributor of 3D printing and scanning products in Sao Paulo, Brazil with locations in Chile, Argentina, Uruguay and Mexico. The closing of the acquisition is subject to customary closing conditions and not yet completed. Under the terms of the agreement, we will acquire 70% of the shares of Robtec at closing and the remainder of the shares on the fifth anniversary of the closing. This acquisition will create a strategic Latin American sales and service platform to drive accelerated adoption of our entire design-to-manufacturing solutions, provide us with significant in-region additive manufacturing service bureau capabilities and expand our global Quickparts full service offerings reach and ability to deliver the latest advanced manufacturing solutions and capabilities.

During the second quarter, we continued to expand our global reseller network, adding major distributors including ScanSource, Inc, Konica Minolta and Canon Marketing Japan, to enhance our presence in North America, Europe, Latin America and Asia-Pacific.

We also enhanced our education offerings, resources and partnerships in conjunction with the launch of our MAKE.DIGITAL initiative. With this initiative, our goal is to promote and advance digital literacy in K-12 STEAM education, by equipping and empowering students with 3D design, scanning and printing skills. We also announced partnerships with organizations such as First Teams, The Albert Einstein Distinguished Educator Fellows, the U.S. Department of Education, Level Up Village, CityX Project and others.

In May, we completed an offering of 6.0 million shares of common stock in an underwritten public offering. The offering raised approximately \$299.7 million of cash proceeds, net of offering expenses.

In June, we announced the Ekocycle™ Cube® 3D printer, a collaboration with Ekocycle, a brand launched by The Coca-Cola Company and will.i.am, our Chief Creative Officer. The Ekocycle Cube uses a new full durability filament made in part from post-consumer recycled PET plastic bottles.

In June, we leased an additional 0.2 million square foot manufacturing facility in Rock Hill, SC to further expand our manufacturing capacity and capabilities.

## Results of Operations

### Summary of 2014 financial results

During the second quarter of 2014, we reported improved revenue as compared to the second quarter of 2013 as our worldwide businesses continued to expand, reflecting growth in design and manufacturing printers demand and increased materials, software and service revenue. Revenue for the second quarter of 2014 increased by 25.4%, or \$30.7 million, to \$151.5 million compared to \$120.8 million in the second quarter of 2013. Higher revenue offset by increased SG&A expenses, primarily due to increased sales and marketing expenses and additional staffing due to our expanding portfolio and acquisitions, and higher R&D expenses related to our portfolio expansion and diversification, new product developments and acquisitions, resulted in net income of \$2.1 million for the second quarter of 2014, compared to net income of \$9.3 million for the same period in 2013.

Printers and other products revenue increased by \$7.8 million, or 14.4%, from the second quarter of 2013, to \$61.9 million, driven by expanding use and rising demand for our design and manufacturing printers.

Print materials sales for the second quarter of 2014 were \$38.0 million, an increase of \$8.8 million, or 29.8%, from the second quarter of 2013 as revenue from materials was impacted by continued expansion of printers installed over past periods.

Revenue from services increased by \$14.2 million, or 38.1%, to \$51.5 million in the second quarter of 2014 from \$37.3 million in the same quarter in 2013. The increase in services revenue reflects increased revenue from our Quickparts, printer and software services and the addition of Medical Modeling 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 12 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 and organic growth is calculated based on our prior year total revenue. In the second quarter of 2014, our organic growth was 10.0% compared to 30.1% for the second quarter of 2013. For the six months ended June 30, 2014 and 2013, our organic growth was 18.3% and 26.2%, respectively.

Healthcare revenue includes sales of printers, print materials, and services for hearing aid, dental, personalized medical devices and other health-related applications. For the second quarter of 2014, healthcare revenue increased 45.8% and made up 18.2%, or \$27.5 million, of our total revenue compared to 15.6%, or \$18.9 million, in the second quarter of 2013, primarily due to our increased penetration and growth in healthcare applications and the addition of Medical Modeling. During the first six months of 2014, healthcare revenue increased 49.0% and made up 16.4%, or \$49.1 million, of our total revenue compared to 14.8%, or \$33.0 million, in the 2013 period.

Consumer revenue includes sales of Cube® 3D printers and their related print materials, Sense 3D scanners and other products and services related to consumer products and retail channels. For the second quarter of 2014, consumer revenue decreased 13.6% to \$7.4 million, or 4.9% of our total revenue, compared to \$8.5 million, or 7.0% of total revenue, in the second quarter of 2013. The decrease was primarily driven by delayed orders as customers awaited the availability of announced new products. During the first six months of 2014, consumer solutions revenue increased 37.5%, to \$17.0 million, or 5.7% of total revenue, compared to \$12.4 million, or 5.6% of total revenue, in the 2013 period, driven by expanded consumer offerings and increasing demand.

Our gross profit in the second quarter of 2014 improved by \$9.8 million, primarily due to our higher level of revenue from increases across all revenue categories. Our gross profit margin decreased to 47.8% in the second quarter of 2014 from 51.8% in the second quarter of 2013, reflecting current sales mix and timing of sales, availability of new products, absorption of legacy product costs and manufacturing expansion costs.

Our total operating expenses increased by \$22.2 million in the second quarter of 2014, to \$68.0 million, from \$45.8 million in the same 2013 quarter. The increase reflected higher selling, general and administrative expenses primarily due to increased sales and marketing expenses and higher staffing due to our expanding portfolio. The increase also reflects an \$8.1 million increase in research and development expenses related to our portfolio expansion, accelerated new products developments, and the addition of the engineering team in Wilsonville, Oregon.

Our operating income for the second quarter of 2014 decreased to \$4.4 million from \$16.8 million in the same 2013 quarter. This decrease in operating income is due to lower gross profit margin and higher operating expenses as discussed in more detail below.

Our operating activities generated \$19.3 million of cash during the first six months of 2014, which is discussed in further detail below. We used \$63.2 million to fund our strategic investing activities, including acquisition costs. Financing activities during the first six months of 2014 generated \$307.5 million of cash, primarily due to proceeds from our equity raise in the second quarter. In total, our unrestricted cash balance at June 30, 2014 was \$570.3 million compared to \$306.3 million at December 31, 2013.

## Second quarter comparison of revenue by class of product and service

Table 1 sets forth our change in revenue by class of product and services for the second quarter of 2014 compared to the second quarter of 2013:

Table 1

| (Dollars in thousands)       | Printers and Other<br>Products |        | Print Materials |        | Services  |        | Totals     |       |
|------------------------------|--------------------------------|--------|-----------------|--------|-----------|--------|------------|-------|
| Revenue – 2nd quarter 2013   | \$ 54,190                      | 44.9 % | \$ 29,275       | 24.2 % | \$ 37,322 | 30.9 % | \$ 120,787 | 100 % |
| Change in revenue:           |                                |        |                 |        |           |        |            |       |
| Volume                       |                                |        |                 |        |           |        |            |       |
| Core products and services   | 1,587                          | 2.9    | 5,482           | 18.7   | 8,594     | 23.0   | 15,663     | 12.9  |
| New products and services    | 7,352                          | 13.6   | 4,814           | 16.4   | 4,951     | 13.3   | 17,117     | 14.2  |
| Price/Mix                    | (1,869)                        | (3.4)  | (2,133)         | (7.3)  | —         | —      | (4,002)    | (3.3) |
| Foreign currency translation | 688                            | 1.3    | 598             | 2.0    | 661       | 1.8    | 1,947      | 1.6   |
| Net change                   | 7,758                          | 14.4   | 8,761           | 29.8   | 14,206    | 38.1   | 30,725     | 25.4  |
| Revenue – 2nd quarter 2014   | \$ 61,948                      | 40.9 % | \$ 38,036       | 25.1 % | \$ 51,528 | 34.0 % | \$ 151,512 | 100 % |

We earn revenues from the sale of printers and other products, print materials and services. On a consolidated basis, revenue for the second quarter of 2014 increased by \$30.7 million, or 25.4%, compared to the second quarter of 2013, reflecting increases in all classes of product and service.

The \$7.8 million increase in revenue from printers and other products compared to the second quarter of 2013 is driven by increased demand for design and manufacturing printers, including acquired direct metal printers. Printers revenue increased \$6.3 million, or 14.0%, compared to the second quarter of 2013. In connection with the expansion of our professional and retail channels, certain resellers may purchase stock inventory in the ordinary course of business. For the second quarter of 2014, we estimate that revenue related to reseller inventory amounted to approximately 8% of total revenue, which is impacted by timing of sales, expansion of our reseller channel and the recent shift from a partially direct sales model to the reseller channel selling our entire portfolio, which expanded the volume of transactions through the channel.

Other products revenue includes software products, perceptual and haptic devices, and Vidar digitizers. Other products revenue totaled \$10.3 million for the second quarter of 2014, including \$4.5 million of software products revenue, an 18.1% increase over 2013, primarily from demand for our new perceptual devices and software products. Other products revenue for the second quarter of 2013 totaled \$8.8 million, including \$5.0 million of software revenue.

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 of a few printers from one period to another can significantly affect reported revenue in any given period. Revenue reported for printers sales in any particular period is also affected by timing of revenue recognition under rules prescribed by generally accepted accounting principles.

The \$8.8 million increase in revenue from print materials was aided by the improvement in printers sales and by the continued expansion of printers installed over past periods. Sales of integrated materials increased 34.9% to \$27.0 million and represented 71.0% of total materials revenue in the second quarter of 2014 compared to 68.4% in the second quarter of 2013.

The increase in services revenue primarily reflects increased revenue from our Quickparts solutions and the addition of Medical Modeling services, coupled with growing consumer and software services. Service revenue from Quickparts increased 21.6% to \$28.8 million, or 56.0% of total service revenue, for the second quarter of 2014, compared to \$23.7 million, or 63.5%, of total service revenue in the 2013 period. Services revenue from software added \$3.2 million in the second quarter of 2014 compared to \$1.9 million in the second quarter of 2013.

At June 30, 2014 our backlog was \$31.9 million, compared to backlogs of \$28.6 million at December 31, 2013 and \$18.0 million at June 30, 2013. Production and delivery of our printers is generally not characterized by long lead times, backlog is more dependent on timing of customers' requested delivery. Currently, demand for direct metals printers outstrips our manufacturing capacity and delayed commercial shipment of new consumer products with a rising consumer order book contributed to a higher backlog. Backlog at June 30, 2014 includes \$23.1 million of

printers, primarily due to production, metal and consumer printer orders. In addition, Quickparts services lead time and backlog depends on whether orders are for rapid prototyping or longer-range production runs. The backlog at June 30, 2014 includes \$7.2 million of Quickparts services orders, compared to \$8.4 million at June 30, 2013.

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 second quarter revenue by geographic region

Each geographic region contributed to our higher level of revenue in the second quarter of 2014. Table 2 sets forth the change in revenue by geographic area for the second quarter of 2014 compared to the second quarter of 2013:

Table 2

| (Dollars in thousands)       | U.S. |        |        | Europe |        |        | Asia-Pacific |         |        | Total |         |       |
|------------------------------|------|--------|--------|--------|--------|--------|--------------|---------|--------|-------|---------|-------|
| Revenue – 2nd quarter 2013   | \$   | 67,870 | 56.2 % | \$     | 31,855 | 26.4 % | \$           | 21,062  | 17.4 % | \$    | 120,787 | 100 % |
| Change in revenue:           |      |        |        |        |        |        |              |         |        |       |         |       |
| Volume                       |      | 11,678 | 17.2   |        | 8,056  | 25.3   |              | 13,046  | 61.9   |       | 32,780  | 27.1  |
| Price/Mix                    |      | (653)  | (1.0)  |        | (59)   | (0.2)  |              | (3,290) | (15.6) |       | (4,002) | (3.3) |
| Foreign currency translation |      | —      | —      |        | 2,163  | 6.8    |              | (216)   | (1.0)  |       | 1,947   | 1.6   |
| Net change                   |      | 11,025 | 16.2   |        | 10,160 | 31.9   |              | 9,540   | 45.3   |       | 30,725  | 25.4  |
| Revenue – 2nd quarter 2014   | \$   | 78,895 | 52.1 % | \$     | 42,015 | 27.7 % | \$           | 30,602  | 20.2 % | \$    | 151,512 | 100 % |

Revenue from U.S. operations in the second quarter of 2014 increased by \$11.0 million, or 16.2%, to \$78.9 million from \$67.9 million in the second quarter of 2013. The increase was due to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from non-U.S. operations in the second quarter of 2014 increased by \$19.7 million, or 37.2%, to \$72.6 million from \$52.9 million in the second quarter of 2013. Revenue from non-U.S. operations as a percent of total revenue was 47.9% and 43.8%, respectively, at June 30, 2014 and 2013. The increase in non-U.S. revenue, excluding the effect of foreign currency translation, was 33.2% in the second quarter of 2014 compared to 44.0% in the second quarter of 2013.

Revenue from European operations in the second quarter of 2014 increased by \$10.1 million, or 31.9%, to \$42.0 million from \$31.9 million in the second quarter of 2013. This increase was due to a \$8.1 million increase in volume, a \$2.2 million favorable impact of foreign currency translation, partially offset by a \$0.1 million unfavorable combined effect of price and mix.

Revenue from Asia-Pacific operations in the second quarter of 2014 increased by \$9.5 million, or 45.3%, to \$30.6 million from \$21.1 million in the second quarter of 2013, due primarily to a favorable \$13.0 million increase in volume, partially offset by a \$3.3 million unfavorable combined effect of price and mix and a \$0.2 million

unfavorable impact of foreign currency translation.

#### Gross profit and gross profit margins

Table 3 sets forth gross profit and gross profit margins for our products and services for the second quarters of 2014 and 2013:

Table 3

|                             | Quarter Ended June 30, |                     |              |                     |
|-----------------------------|------------------------|---------------------|--------------|---------------------|
|                             | 2014                   |                     | 2013         |                     |
| (Dollars in thousands)      | Gross Profit           | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| Printers and other products | \$ 22,134              | 35.7 %              | \$ 24,701    | 45.6 %              |
| Print materials             | 26,618                 | 70.0                | 21,548       | 73.6                |
| Services                    | 23,646                 | 45.9                | 16,334       | 43.8                |
| Total                       | \$ 72,398              | 47.8 %              | \$ 62,583    | 51.8 %              |

On a consolidated basis, gross profit for the second quarter of 2014 increased by \$9.8 million to \$72.4 million from \$62.6 million in the second quarter of 2013, primarily as a result of higher sales from all revenue categories.

Consolidated gross profit margin in the second quarter of 2014 decreased by 4.0 percentage points to 47.8% from 51.8% for the 2013 quarter. The lower gross profit margin reflects a change in revenue mix with a higher portion of revenue from lower margin products, both overall and within categories, as well as manufacturing expansion costs, availability of new products and absorption of legacy product costs.

Printers and other products gross profit for the second quarter of 2014 decreased by \$2.6 million, or 10.4%, to \$22.1 million from \$24.7 million in the 2013 quarter. Gross profit margin for printers and other products decreased by 9.9 percentage points to 35.7% from 45.6% in the 2013 quarter primarily due to an unfavorable mix of printers and other products coupled with manufacturing expansion, residual new product start up costs and a write down on inventory of legacy products.

Print materials gross profit for the second quarter of 2014 increased by \$5.1 million, or 23.5%, to \$26.6 million from \$21.5 million in the 2013 quarter, and gross profit margin for print materials decreased by 3.6 percentage points to 70.0% from 73.6% in the 2013 quarter primarily due to the mix of materials sold during the quarter.

Gross profit for services for the second quarter of 2014 increased by \$7.3 million, or 44.8%, to \$23.6 million from \$16.3 million in the 2013 quarter. Gross profit margin for services increased by 2.1 percentage points to 45.9% from 43.8% in the 2013 quarter. The increase in the gross profit margin was due to the addition of acquired higher margin medical services, a higher software contribution and an increase in Quickparts gross profit margin to 43.1% for the second quarter of 2014 from 41.6% in the second quarter of 2013.

## Operating expenses

As shown in Table 4, total operating expenses increased by \$22.2 million, or 48.6%, to \$68.0 million in the second quarter of 2014 from \$45.8 million in the second quarter of 2013. 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 June 30, |         |           |         |
|----------------------------------------------|------------------------|---------|-----------|---------|
|                                              | 2014                   |         | 2013      |         |
|                                              |                        | %       |           | %       |
| (Dollars in thousands)                       | Amount                 | Revenue | Amount    | Revenue |
| Selling, general and administrative expenses | \$ 50,322              | 33.2 %  | \$ 36,189 | 30.0 %  |
| Research and development expenses            | 17,714                 | 11.7    | 9,598     | 7.9     |
| Total operating expenses                     | \$ 68,036              | 44.9 %  | \$ 45,787 | 37.9 %  |

Selling, general and administrative expenses increased by \$14.1 million to \$50.3 million in the second quarter of 2014 compared to \$36.2 million in the second quarter of 2013, and increased to 33.2% of revenue in 2014 compared to 30.0% for 2013. The increase was due primarily to a \$7.8 million increase in compensation costs due to increased staffing, a \$3.1 million increase in amortization, a \$0.8 million increase in bad debts expense, a \$0.7 million increase in consultant fees and a \$0.7 million increase in marketing costs.

Research and development expenses increased by \$8.1 million, or 84.6%, to \$17.7 million in the second quarter of 2014 from \$9.6 million in the second quarter of 2013. This increase was primarily due to a \$4.0 million increase in compensation expenses related to talent expansion, a \$1.5 million increase in R&D materials related to new product development, a \$0.6 million increase in consulting fees, a \$0.5 million increase in depreciation expense and a \$0.4 million increase in facility costs.

### Income from operations

Our income from operations of \$4.4 million for the second quarter of 2014 decreased from \$16.8 million in the second quarter of 2013. See Gross profit and gross profit margins and Operating expenses above. The following table sets forth operating income by geographic area for the second quarter of 2014 compared to 2013:

Table 5

| (Dollars in thousands)        | Quarter Ended June 30, |           |
|-------------------------------|------------------------|-----------|
|                               | 2014                   | 2013      |
| Income (loss) from operations |                        |           |
| United States                 | \$ (7,036)             | \$ 11,643 |
| Germany                       | 451                    | (318)     |
| Other Europe                  | 2,124                  | 235       |
| Asia Pacific                  | 9,455                  | 5,476     |
| Subtotal                      | 4,994                  | 17,036    |
| Inter-segment elimination     | (632)                  | (240)     |
| Total                         | \$ 4,362               | \$ 16,796 |

With respect to the U.S., in 2014 and 2013, the changes in operating income by geographic area reflected the same factors discussed above in Gross profit and gross profit margins and Operating expenses.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. in 2014 and 2013 resulted primarily from changes in transfer pricing, which is a function of revenue levels.

#### Interest and other expense, net

Interest and other expense, net was \$1.5 million in the second quarter of 2014 compared with \$2.7 million in the 2013 quarter. The lower interest and other expense is primarily due to lower interest expense related to conversions of the senior convertible notes. Interest and other expense, net in the second quarter of 2014 reflected a foreign exchange loss of \$1.1 million. The \$2.7 million of interest and other expense, net in the second quarter of 2013 primarily reflected the loss on conversion of convertible notes, which amounted to \$3.5 million and the related interest, which amounted to \$0.8 million, of which \$0.3 million represents non-cash amortization, partially offset by \$1.1 million of interest income and a foreign exchange gain of \$0.2 million.

#### Provision for income taxes

We recorded a \$0.7 million provision for income taxes in the second quarter of 2014 and a \$4.8 million provision for income taxes in the second quarter of 2013. Our 2014 provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions. The 2013 provision for income taxes primarily reflects income taxes in U.S. and non-U.S. jurisdictions, reduced by the reversal of ASC-740 provisions in non-US jurisdictions.

#### Net income

Net income attributable to the Company for the second quarter of 2014 decreased \$7.2 million to \$2.1 million compared to \$9.3 million in the second quarter of 2013. The principal reasons for the decrease, which are discussed in more detail above, were:

- the \$12.4 million decrease in operating income; partially offset by

- the \$4.1 million decrease in our tax provision and
- the \$1.2 million decrease in interest and other expense.

For the quarter ended June 30, 2014, average common shares for basic and diluted earnings per share were 106.4 million and basic and diluted earnings per share were \$0.02. For the quarter ended June 30, 2013, average common shares for basic and diluted earnings per share were 96.2 million and basic and diluted earnings per share were \$0.10.

## Results of Operations – Six Months Comparison

### Six months comparison of revenue by class of product and service

The table below sets forth our change in revenue by class of product and service for the first six months of 2014 compared to the first six months of 2013:

Table 6

| (Dollars in thousands)       | Printers and Other |        | Print Materials |        | Services  |        | Total      |       |
|------------------------------|--------------------|--------|-----------------|--------|-----------|--------|------------|-------|
|                              | Products           |        |                 |        |           |        |            |       |
| Revenue – six months 2013    | \$ 93,913          | 42.1 % | \$ 58,004       | 26.0 % | \$ 70,949 | 31.9 % | \$ 222,866 | 100 % |
| Change in revenue:           |                    |        |                 |        |           |        |            |       |
| Volume                       |                    |        |                 |        |           |        |            |       |
| Core products and services   | 6,041              | 6.4    | 8,735           | 15.1   | 17,905    | 25.2   | 32,681     | 14.7  |
| New products and services    | 22,514             | 24.0   | 13,393          | 23.1   | 8,299     | 11.7   | 44,206     | 19.8  |
| Price/Mix                    | (1,091)            | (1.2)  | (2,584)         | (4.5)  | —         | —      | (3,675)    | (1.6) |
| Foreign currency translation | 1,324              | 1.4    | 929             | 1.6    | 939       | 1.3    | 3,192      | 1.4   |
| Net change                   | 28,788             | 30.6   | 20,473          | 35.3   | 27,143    | 38.2   | 76,404     | 34.3  |
| Revenue – six months 2014    | \$ 122,701         | 41.0 % | \$ 78,477       | 26.2 % | \$ 98,092 | 32.8 % | \$ 299,270 | 100 % |



We earn revenues from the sale of printers and other products, print materials and services. On a consolidated basis, revenue for the first six months of 2014 increased by \$76.4 million, or 34.3%, compared to the first six months of 2013 led by increased sales of printers and aided by increased sales of materials and services.

The \$28.8 million increase in revenue from printers and other products compared to the first six months of 2013 is primarily driven by increased demand for design and manufacturing printers, including acquired direct metal printers. Printers revenue increased \$25.3 million, or 32.8%, compared to the first six months of 2013.

Other products revenue includes software products, perceptual and haptic devices, and Vidar digitizers. Other products revenue totaled \$20.3 million for the first six months of 2014, including \$9.0 million of software products revenue, a 21.0% increase over 2013. Other products revenue for the first six months of 2013 totaled \$16.8 million, including \$9.2 million of software revenue.

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 of a few printers from one period to another can significantly affect reported revenue in any given period. Revenue reported for printers sales in any particular period is also affected by timing of revenue recognition under rules prescribed by generally accepted accounting principles.

The \$20.5 million increase in revenue from print materials was aided by the improvement in printers sales and by the continued expansion of printers installed over past periods. Sales of integrated materials increased 41.4% to \$56.4 million and represented 71.9% of total materials revenue for the first six months of 2014 compared to 68.8% for the first six months of 2013.

The increase in services revenue primarily reflects revenue from our Quickparts solutions and addition of Medical Modeling services, coupled with consumer and printer services growth. Service revenue from Quickparts increased 29.2% to \$57.6 million, or 58.8% of total service revenue, for the first six months of 2014, compared to \$44.6 million, or 62.9%, of total service revenue in the 2013 period. Services revenue from software added \$6.0 million in the first six months of 2014 compared to \$2.7 million in the first six months of 2013.

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 six months revenue by geographic region

Each geographic region contributed to our higher level of revenue in first six months of 2014. Table 7 sets forth the change in revenue by geographic area for the first six months of 2014 compared to the first six months of 2013:

Table 7

| (Dollars in thousands)       | U.S.       |        | Europe    |        | Asia-Pacific |        | Total      |       |
|------------------------------|------------|--------|-----------|--------|--------------|--------|------------|-------|
| Revenue – six months 2013    | \$ 125,023 | 56.1 % | \$ 60,435 | 27.1 % | \$ 37,408    | 16.8 % | \$ 222,866 | 100 % |
| Change in revenue:           |            |        |           |        |              |        |            |       |
| Volume                       | 23,821     | 19.1   | 20,800    | 34.4   | 32,266       | 86.3   | 76,887     | 34.5  |
| Price/Mix                    | (1,917)    | (1.5)  | 3,827     | 6.3    | (5,585)      | (14.9) | (3,675)    | (1.6) |
| Foreign currency translation | —          | —      | 4,517     | 7.5    | (1,325)      | (3.5)  | 3,192      | 1.4   |
| Net change                   | 21,904     | 17.6   | 29,144    | 48.2   | 25,356       | 67.9   | 76,404     | 34.3  |
| Revenue – six months 2014    | \$ 146,927 | 49.1 % | \$ 89,579 | 29.9 % | \$ 62,764    | 21.0 % | \$ 299,270 | 100 % |

Revenue from U.S. operations in the first six months of 2014 increased by \$21.9 million, or 17.6%, to \$146.9 million from \$125.0 million in the first six months of 2013. The increase was due to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from non-U.S. operations in the first six months of 2014 increased by \$54.5 million, or 55.7%, to \$152.3 million from \$97.8 million for the first six months of 2013. Revenue from non-U.S. operations as a percent of total revenue was 50.9% and 43.9%, respectively, for the first six months of 2014 and 2013. The increase in non-U.S. revenue, excluding the effect of foreign currency translation, was 51.1% for the first six months of 2014 compared to 43.4% for the first six months of 2013.

Revenue from European operations in the first six months of 2014 increased by \$29.2 million, or 48.2%, to \$89.6 million from \$60.4 million in the first six months of 2013. This increase was due to a \$20.8 million increase in volume, a \$4.5 million favorable impact of foreign currency translation, and a \$3.8 million favorable combined effect of price and mix.

Revenue from Asia-Pacific operations in the first six months of 2014 increased by \$25.4 million, or 67.9%, to \$62.8 million from \$37.4 million in the first six months of 2013, due primarily to a favorable \$32.3 million increase in volume, partially offset by a \$5.6 million unfavorable combined effect of price and mix and a \$1.3 million unfavorable impact of foreign currency translation.

#### Gross profit and gross profit margins

Table 8 sets forth gross profit and gross profit margin for our products and services for the first six months of 2014 and 2013:

Table 8

|                             | Six Months Ended June 30, |                     |              |                     |
|-----------------------------|---------------------------|---------------------|--------------|---------------------|
|                             | 2014                      |                     | 2013         |                     |
| (Dollars in thousands)      | Gross Profit              | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| Printers and other products | \$ 46,296                 | 37.7 %              | \$ 42,530    | 45.3 %              |
| Print materials             | 56,834                    | 72.4                | 42,426       | 73.1                |
| Services                    | 44,740                    | 45.6                | 31,104       | 43.8                |
| Total                       | \$ 147,870                | 49.4 %              | \$ 116,060   | 52.1 %              |

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On a consolidated basis, gross profit for the first six months of 2014 increased by \$31.8 million to \$147.9 million from \$116.1 million in the first six months of 2013, primarily as a result of higher sales from all revenue categories.

Consolidated gross profit margin in the first six months of 2014 decreased by 2.7 percentage points to 49.4% from 52.1% for the 2013 period. The lower gross profit margin reflects a change in revenue mix, with lower margin products making up a higher portion of revenue, combined with manufacturing expansion costs, new product start-up costs and absorption of legacy product costs.

Printers and other products gross profit for the first six months of 2014 increased by \$3.8 million, or 8.9%, to \$46.3 million from \$42.5 million in the 2013 period, due to higher revenue. Gross profit margin for printers and other products decreased by 7.6 percentage points to 37.7% from 45.3% in the 2013 period primarily due to an unfavorable mix of lower margin products making up a higher portion of revenue coupled with manufacturing expansion and residual new product start-up costs and a write down on inventory of legacy products.

Print materials gross profit for the first six months of 2014 increased by \$14.4 million, or 34.0%, to \$56.8 million from \$42.4 million in the 2013 period, and gross profit margin for print materials decreased by 0.7 percentage points to 72.4% from 73.1% in the 2013 period due to the mix of materials sold during the period.

Gross profit for services for the first six months of 2014 increased by \$13.6 million, or 43.8%, to \$44.7 million from \$31.1 million in the 2013 period and gross profit margin for services increased by 1.8 percentage points to 45.6% from 43.8% in the 2013 period. The increase in the gross profit margin was due to the addition of higher margin Medical Modeling services, higher software contribution and an increase in Quickparts gross profit margin to 42.3% for the first six months of 2014 from 41.5% in the first six months of 2013.

### Operating expenses

As shown in Table 9, total operating expenses increased by \$52.3 million, or 63.9%, to \$134.0 million in the first six months of 2014 from \$81.7 million in the first six months of 2013. This increase was due to higher selling, general and administrative expenses and higher research and development expenses, both of which are discussed below.

Table 9

|                                              | Six Months Ended June 30, |              |           |              |
|----------------------------------------------|---------------------------|--------------|-----------|--------------|
|                                              | 2014                      |              | 2013      |              |
| (Dollars in thousands)                       | Amount                    | %<br>Revenue | Amount    | %<br>Revenue |
| Selling, general and administrative expenses | \$ 99,042                 | 33.1 %       | \$ 65,643 | 29.5 %       |
| Research and development expenses            | 34,949                    | 11.7         | 16,102    | 7.2          |
| Total operating expenses                     | \$ 133,991                | 44.8 %       | \$ 81,745 | 36.7 %       |

Selling, general and administrative expenses increased by \$33.4 million to \$99.0 million in the first six months of 2014 compared to \$65.6 million in the first six months of 2013, and increased to 33.1% of revenue in 2014 compared to 29.5% for 2013. The increase was due primarily to a \$16.1 million increase in compensation costs due to increased staffing, an \$8.5 million increase in amortization, a \$1.6 million increase in consulting fees, a \$0.9 million increase in marketing expenses and a \$0.7 million increase in occupancy costs.

Research and development expenses increased by \$18.8 million, or 117.0%, to \$34.9 million in the first six months of 2014 from \$16.1 million in the first six months of 2013. This increase was primarily due to a \$8.5 million increase in compensation expenses related to talent expansion, a \$3.1 million increase in R&D materials related to new product development, a \$0.9 million increase in consulting fees and a \$0.8 million increase in depreciation expense.

#### Income from operations

Our income from operations of \$13.9 million for the first six months of 2014 decreased from \$34.3 million in the first six months of 2013. See Gross profit and gross profit margins and Operating expenses above.

The following table sets forth operating income by geographic area for the first six months of 2014 compared to 2013:

Table 10

| (Dollars in thousands)        | Six Months Ended<br>June 30, |           |
|-------------------------------|------------------------------|-----------|
|                               | 2014                         | 2013      |
| Income (loss) from operations |                              |           |
| United States                 | \$ (9,066)                   | \$ 22,912 |
| Germany                       | 648                          | 343       |
| Other Europe                  | 4,525                        | 2,001     |
| Asia Pacific                  | 18,522                       | 9,793     |
| Subtotal                      | 14,629                       | 35,049    |
| Inter-segment elimination     | (750)                        | (734)     |
| Total                         | \$ 13,879                    | \$ 34,315 |

With respect to the U.S., in 2014 and 2013, the changes in operating income by geographic area reflected the same factors discussed above in Gross profit and gross profit margins and Operating expenses.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. in 2014 and 2013 resulted primarily from changes in transfer pricing, which is a function of revenue levels.

#### Interest and other expense, net

Interest and other expense, net was \$2.5 million in the first six months of 2014 compared with \$12.7 million in the 2013 period. The lower interest and other expense is primarily due to lower interest expense related to conversions of the senior convertible notes. Interest and other expense, net in the first six months of 2014 primarily reflected a foreign exchange loss of \$1.3 million and interest expense of \$0.8 million. The \$12.7 million of interest and other expense, net in the first six months of 2013 primarily reflected the loss on conversion of convertible notes, which amounted to \$9.3 million and the related interest, which amounted to \$2.2 million, of which \$0.8 million represents non-cash amortization, and also reflected a foreign exchange loss of \$0.8 million.

#### Provision for income taxes

We recorded a \$4.3 million provision for income taxes in the first six months of 2014 and a \$6.4 million provision for income taxes in the first six months of 2013. Our 2014 provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions. The 2013 provision for income taxes primarily reflects income taxes in U.S. and non-U.S. jurisdictions, reduced by the reversal of ASC-740 provisions in non-US jurisdictions.

#### Net income

Net income attributable to the Company for the first six months of 2014 decreased \$8.2 million to \$7.0 million compared to \$15.2 million in the first six months of 2013. The principal reasons for the decrease, which are discussed in more detail above, were:

- the \$20.4 million decrease in operating income; partially offset by
- the \$10.2 million decrease in interest and other expense and
- the \$2.1 million decrease in our provision for income taxes.

For the six months ended June 30, 2014, average common shares for basic and diluted earnings per share were 105.0 million and basic and diluted earnings per share were \$0.07. For the six months ended June 30, 2013, average common shares for basic and diluted earnings per share were 94.0 million and basic and diluted earnings per share were \$0.16.

#### 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 expenses. We exclude tax-effected non-cash interest expenses, primarily related to the costs associated with our outstanding senior convertible notes, from interest and other expenses, net.



- Loss on convertible notes. We exclude the tax-effected loss on conversion of convertible notes from interest and other expenses, net.
- Net loss on litigation and tax settlements. We exclude the tax-effected net gain or loss on acquisitions and litigation settlements from interest and other expense, net.

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

Table 11

| (in thousands, except per share amounts)               | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|--------------------------------------------------------|------------------------|-----------|---------------------------|-----------|
|                                                        | 2014                   | 2013      | 2014                      | 2013      |
| GAAP net income attributable to 3D Systems Corporation | \$ 2,125               | \$ 9,343  | \$ 7,002                  | \$ 15,226 |
| Cost of sales adjustments:                             |                        |           |                           |           |
| Amortization of intangibles                            | 70                     | 66        | 135                       | 125       |
| Operating expense adjustments:                         |                        |           |                           |           |
| Amortization of intangibles                            | 8,141                  | 5,018     | 17,269                    | 8,771     |
| Acquisition and severance expenses                     | 2,405                  | 2,504     | 3,395                     | 4,702     |
| Non-cash stock-based compensation expense              | 8,363                  | 3,125     | 15,639                    | 5,346     |
| Interest and other expense adjustments:                |                        |           |                           |           |
| Non-cash interest expense                              | 98                     | 285       | 194                       | 753       |
| Loss on convertible notes                              | —                      | 3,538     | —                         | 9,253     |
| Net loss on litigation and tax settlements             | —                      | —         | —                         | 2,000     |
| Tax effect                                             | (4,579)                | (4,928)   | (11,952)                  | (8,375)   |
| Non-GAAP net income                                    | \$ 16,623              | \$ 18,951 | \$ 31,682                 | \$ 37,801 |
| Non-GAAP basic and diluted earnings per share          | \$ 0.16                | \$ 0.20   | \$ 0.30                   | \$ 0.40   |

## Financial Condition and Liquidity

Table 12

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|                                                                   | June 30,     | December   |
|-------------------------------------------------------------------|--------------|------------|
| (Dollars in thousands)                                            | 2014         | 31, 2013   |
| Cash and cash equivalents                                         | \$ 570,262   | \$ 306,316 |
| Working capital                                                   | \$ 692,668   | \$ 416,399 |
| Total stockholders' equity attributable to 3D Systems Corporation | \$ 1,284,767 | \$ 932,646 |

Our unrestricted cash and cash equivalents increased by \$264.0 million to \$570.3 million at June 30, 2014 from \$306.3 million at December 31, 2013. We generated \$19.3 million of cash from operating activities. Cash from operations consisted of \$7.1 million of net income, including \$30.4 million of non-cash charges and \$18.2 million of cash used by net changes in operating accounts. We used \$63.2 million of cash in investing activities, including \$53.5 million to fund acquisitions and other investing activities. Cash from financing activities provided \$307.5 million of cash, including \$299.7 million of net proceeds from our common stock offering completed in May 2014. See Cash flow and Capitalized lease obligations below.

Cash and cash equivalents at June 30, 2014 includes \$23.5 million of cash held overseas, compared to \$19.9 million at December 31, 2013. Cash held overseas 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.

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

Our net working capital increased by \$276.3 million to \$692.7 million at June 30, 2014 from \$416.4 million at December 31, 2013, primarily due to the factors discussed below.

Accounts receivable, net, increased by \$5.3 million to \$137.4 million at June 30, 2014 from \$132.1 million at December 31, 2013. Gross accounts receivable increased by \$8.3 million from December 31, 2013. With a greater portion of our revenue mix shifting to resellers and retailers, as part of our planned business model, a larger proportion of our sales are transacted on standard credit terms. This shift in our business model was exacerbated by the combined effect of the timing and concentration of orders during the last month of the quarter as a result of increasing demand and meaningful contributions from new products, which have driven days sales outstanding to 83 days at June 30, 2014 from 79 days at December 31, 2013. Accounts receivable more than 90 days past due increased to 13.4% of gross receivables from 9.1% at December 31, 2013.

Inventories, net increased by \$15.1 million to \$90.2 million at June 30, 2014 from \$75.1 million at December 31, 2013. This increase resulted primarily from an \$8.6 million increase in raw materials inventory and a \$7.4 million increase in finished goods inventory due to the timing of assembly production, sales and revenue recognition at quarter-end, which all also impacts our backlog, and a one-time write down of inventory of legacy products. We maintained \$7.1 million of inventory reserves at June 30, 2014 and \$4.3 million of such reserves at December 31, 2013.

The majority of our inventory consists of finished goods, including printers, print materials and service parts. Inventory also consists of raw materials and spare parts for the in-house assembly and support service for consumer and professional 3D printers. We outsource the assembly and refurbishment of production printers; therefore, we generally do not hold in inventory most parts for production printer assembly or refurbishment.

Accounts payable increased by \$13.7 million to \$65.4 million at June 30, 2014 from \$51.7 million at December 31, 2013. The increase is primarily related to the normal timing of our scheduled expense payments.

Prepaid expenses and other current assets increased by \$6.9 million to \$14.1 million at June 30, 2014 from \$7.2 million at December 31, 2013. This increase is primarily due to prepaid materials and insurance.

The changes in the first six months of 2014 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 six months of 2014 and 2013.

Table 13

|                                           | Six Months Ended June<br>30, |            |
|-------------------------------------------|------------------------------|------------|
|                                           | 2014                         | 2013       |
| (Dollars in thousands)                    |                              |            |
| Cash provided by operating activities     | \$ 19,330                    | \$ 3,395   |
| Cash used in investing activities         | (63,173)                     | (90,881)   |
| Cash provided by financing activities     | 307,466                      | 281,642    |
| Effect of exchange rate changes on cash   | 323                          | (760)      |
| Net increase in cash and cash equivalents | \$ 263,946                   | \$ 193,396 |

#### Cash flow from operating activities

For the six months ended June 30, 2014, our operating activities provided \$19.3 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, 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 six months ended June 30, 2013, our operating activities provided \$3.4 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 six months of 2014 decreased to \$63.2 million from \$90.9 million for the first six months of 2013. This decrease was primarily due to \$53.5 million of cash paid for acquisitions in the first six months of 2014 compared to \$86.2 million paid for acquisitions in the 2013 period. Cash flow used in investing activities also includes minority investments of less than 20% made through 3D Ventures in promising enterprises that we believe will benefit from or be powered by our technologies and other investments or joint ventures. During the first six months of 2014, we invested \$0.3 million in these enterprises and ventures.

#### Cash flow from financing activities

Net cash provided by financing activities increased to \$307.5 million for the six months ended June 30, 2014 compared to \$281.6 million in the 2013 period. Cash from financing activities for the first six months of 2014 primarily included \$299.7 million net proceeds from a common stock offering and \$6.4 million of tax benefits from share-based payment arrangements. Cash from financing activities for the six months ended June 30, 2013 included \$272.1 million net proceeds from a common stock offering, \$9.4 million of tax benefits from share-based payment arrangements, \$0.4 million of stock-based compensation proceeds, partially offset by \$0.2 million of cash paid in lieu of fractional shares and \$0.1 million of capital lease payments.

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

Debt

In November 2011, we issued 5.50% Senior Convertible Notes due 2016 (“the Notes”) in an aggregate principal amount of \$152.0 million. The Notes bear interest at a fixed rate of 5.50% per annum, payable June 15 and December 15 of each year while they are outstanding, beginning June 15, 2012. The net proceeds of the Notes were used to fund the acquisition of Z Corp and Vidar and for general corporate purposes.

Adjusted for the 3-for-2 stock split completed in February 2013, the Notes have a conversion rate of 69.9032 shares of Common Stock per \$1,000 principal amount of Notes, which amounts to a conversion price of \$14.31 per common share. Upon conversion, the Company has the option to pay cash or issue Common Stock, or a combination thereof. The aggregate principal amount of these Notes then outstanding matures on December 15, 2016, unless earlier converted or repurchased in accordance with the terms of the Notes.

Conditions for conversion have been satisfied and the Notes are convertible. During the second quarter and six months ended June 30, 2014, Note holders did not convert any Notes, therefore, no loss on conversion was recognized in the first six months of 2014. During the second quarter and six months ended June 30, 2013, Note holders converted \$20.8 million and \$63.4 million aggregate principal amount of Notes, respectively, which converted into 1.5 million shares and 4.4 million shares of common stock, respectively. During the second quarter and six months ended June 30, 2013, the Company recognized a loss on the conversion of these notes of \$3.5 million and \$9.3 million, respectively.

As of June 30, 2014, the aggregate amount of Notes outstanding was \$12.5 million.

The Notes contain a number of covenants covering, among other things, payment of Notes, reporting, maintenance of existence and payment of taxes. Failure to comply with these covenants, or any other event of default, could result in acceleration of the principal amount and accrued and unpaid interest on the Notes. We were in compliance with all covenants as of June 30, 2014. See Note 8 to the unaudited condensed consolidated financial statements.

## Capitalized lease obligations

Our capitalized lease obligations, which primarily relate to a lease agreement that we entered into during 2006 with respect to our Rock Hill facility, which covers the facility itself, decreased to \$7.4 million at June 30, 2014 from \$7.5 million at December 31, 2013 primarily due to scheduled payments of principal on capital lease installments. Our outstanding capitalized lease obligations carrying values at June 30, 2014 and December 31, 2013 were as follows:

Table 14

| (Dollars in thousands)                           | June 30,<br>2014 | December<br>31, 2013 |
|--------------------------------------------------|------------------|----------------------|
| Capitalized lease obligations:                   |                  |                      |
| Current portion of capitalized lease obligations | \$ 194           | \$ 187               |
| Capitalized lease obligations, long-term portion | 7,181            | 7,277                |
| Total capitalized lease obligations              | \$ 7,375         | \$ 7,464             |

## 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 June 30, 2014 and December 31, 2013 was \$10.1 million and \$5.6 million, respectively.

As of June 30, 2014, we have supply commitments related to printer assemblies that total \$65.6 million compared to \$41.1 million at December 31, 2013.

## 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.

There were no foreign exchange contracts at June 30, 2014 or December 31, 2013. 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.

The total impact of foreign currency related items on our unaudited condensed consolidated statements of operations and comprehensive income was a \$1.3 million loss for the six months ended June 30, 2014 and a \$0.8 million loss for the six months ended June 30, 2013 and a \$1.7 million increase in other comprehensive income for the six months ended June 30, 2014 compared to a \$5.7 million decrease in other comprehensive income for the first six months of 2013.

## 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, 2013.

## Forward-Looking Statements

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

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or that include terms such as “believes,” “belief,” “expects,” “intends,” “anticipates” or “plans” to be uncertain and forward-looking. Forward-looking statements may include comments as to our beliefs and expectations as to future events and trends affecting our business. Forward-looking statements are based upon management’s current expectations concerning future events and trends and are necessarily subject to uncertainties, many of which are outside 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, 2013, as well as other factors, could cause actual results to differ materially from those reflected or predicted in forward-looking statements.

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

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

ended December 31, 2013, 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, 2013 are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of these risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed in Item 1A in our Form 10-K for the year ended December 31, 2013 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, 2013, refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in our Form 10-K for the year ended December 31, 2013. During the first six months of 2014, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2013.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

As of June 30, 2014, 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 June 30, 2014 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, 2013.

### 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. (Incorporated by reference to Exhibit 3.2 of Registrant's Current Report on Form 8-K filed on December 1, 2006.)
- 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.)
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated July 31, 2014.
- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated July 31, 2014.
- 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 July 31, 2014.
- 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 July 31, 2014.
- 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.

\* Management contract or compensatory plan or arrangement.

SIGNATURE

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

3D Systems Corporation

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

Date: July 31, 2014