3D SYSTEMS CORP
Form 424B3
November 01, 2007

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Filed pursuant to Rule 424(b)(3)
Registration No. 333-145493

PROSPECTUS SUPPLEMENT NO. 1
Dated November 1, 2007
(To Prospectus dated October 11, 2007)

3D SYSTEMS CORPORATION
1,250,000 SHARES OF COMMON STOCK

Supplement to Prospectus

This supplements the prospectus dated October 11, 2007, of 3D Systems Corporation (the Company) relating to the sale by certain of our securityholders of up to 1,250,000 shares of Common Stock of the Company. You should read this prospectus supplement in conjunction with the prospectus, and this supplement is qualified by reference to the prospectus, except to the extent that the information herein supersedes the information contained in the prospectus. This supplement includes the Company s quarterly report on Form 10-Q for the quarterly period ended September 30, 2007 as filed with the Securities and Exchange Commission on November 1, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

This supplement is part of the prospectus and must accompany the prospectus to satisfy prospectus delivery requirements under the Securities Act of 1933, as amended.

The date of this prospectus supplement is November 1, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

Commission File No. 0-22250

3D SYSTEMS CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o   No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Shares of Common Stock, par value $0.001, outstanding as of September 30, 2007: 22,155,323

3D SYSTEMS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006
	(In thousands, except par value) (unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,472	$ 14,331
Accounts receivable, net of allowance for doubtful accounts of $2,070 (2007) and $2,359 (2006)	28,080	34,513
Inventories, net of reserves of $2,822 (2007) and $2,353 (2006)	22,550	26,114
Prepaid expenses and other current assets	4,199	6,268
Deferred income tax assets	499	748
Restricted cash short term	1,200	1,200
Assets held for sale, net	3,454	3,454
Total current assets	85,454	86,628
Property and equipment, net	22,495	23,763
Intangible assets, net	5,331	6,602
Goodwill	47,419	46,867
Other assets, net	2,507	2,334
Total assets	$ 163,206	$ 166,194
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Bank credit facility	$	$ 8,200
Industrial development bonds related to assets held for sale	3,325	3,545
Current portion of capitalized lease obligations	178	168
Accounts payable	17,869	26,830
Accrued liabilities	11,696	12,577
Customer deposits	3,146	6,510
Deferred revenue	11,887	11,463
Total current liabilities	48,101	69,293
Long-term portion of capitalized lease obligations	8,709	8,844
Convertible subordinated debentures		15,354

Long-term income taxes payable	939	
Other liabilities	3,395	3,034
Total liabilities	61,144	96,525
Stockholders equity:		
Common stock, $0.001 par value, authorized 60,000 shares; issued and outstanding 22,155 (2007) and 19,085 (2006)	22	19
Additional paid-in capital	173,155	132,566
Treasury stock, at cost; 44 shares (2007) and 28 shares (2006)	(104)	(89)
Accumulated deficit in earnings	(73,756)	(64,455)
Accumulated other comprehensive income	2,745	1,628
Total stockholders equity	102,062	69,669
Total liabilities and stockholders equity	$ 163,206	$ 166,194

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands, except per share amounts) (unaudited)			
Revenue:				
Products	$ 29,142	$ 22,732	$ 85,292	$ 65,917
Services	9,086	8,738	26,294	26,327
Total revenue	38,228	31,470	111,586	92,244
Cost of sales:				
Products	15,522	13,349	45,450	40,849
Services	6,768	7,381	20,816	21,214
Total cost of sales	22,290	20,730	66,266	62,063
Gross profit	15,938	10,740	45,320	30,181
Operating expenses:				
Selling, general and administrative	11,883	13,821	41,647	34,788
Research and development	3,623	3,856	10,238	10,087
Restructuring costs		1,745		5,663
Total operating expenses	15,506	19,422	51,885	50,538
Income (loss) from operations	432	(8,682)	(6,565)	(20,357)
Interest expense (income) and other, net	(146)	336	1,099	661
Income (loss) before income taxes	578	(9,018)	(7,664)	(21,018)
Provision for income taxes	248	2,241	429	2,303
Net income (loss)	330	(11,259)	(8,093)	(23,321)
Preferred stock dividends				1,414
Net income (loss) available to common stockholders	$ 330	$ (11,259)	$ (8,093)	$ (24,735)
Earnings (loss) per share:				
Basic	$ 0.02	$ (0.61)	$ (0.40)	$ (1.48)
Diluted	$ 0.01	$ (0.61)	$ (0.40)	$ (1.48)
Weighted average common shares:				
Basic	21,838	18,390	20,115	16,706

Diluted	22,499	18,390	20,115	16,706

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2007	2006
	(In thousands) (unaudited)	
Cash flows from operating activities:		
Net loss	$ (8,093)	$ (23,321)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for deferred income taxes	(48)	2,605
Depreciation and amortization	5,449	4,415
Provision for bad debts	309	1,282
Adjustments for inventory reserve	535	(61)
Stock-based compensation	2,247	1,909
(Gain) Loss on disposition of property and equipment	8	(34)
Changes in operating accounts:		
Accounts receivable	7,117	5,530
Lease receivables		177
Inventories	2,701	(12,265)
Prepaid expenses and other current assets	1,975	2,933
Other assets	(40)	716
Accounts payable	(9,088)	5,274
Accrued liabilities	(1,279)	1,111
Customer deposits	(3,386)	398
Deferred revenue	95	(2,932)
Other liabilities	105	(32)
Net cash used in operating activities	(1,393)	(12,295)
Cash flows from investing activities:		
Purchases of property and equipment	(966)	(7,697)
Proceeds from the disposition of property and equipment		248
Additions to licenses and patents	(521)	(305)
Software development costs	(502)	(485)
Net cash used in investing activities	(1,989)	(8,239)
Cash flows from financing activities:		
Bank borrowings (repayments)	(8,200)	
Stock option and restricted stock proceeds	2,791	2,716
Proceeds from issuance of common stock	20,407	
Repayment of long-term debt	(336)	(205)
Payment of preferred stock dividends		(785)

Net cash provided by financing activities	14,662	1,726
Effect of exchange rate changes on cash	(139)	(240)
Net increase (decrease) in cash and cash equivalents	11,141	(19,048)
Cash and cash equivalents at the beginning of the period	14,331	24,328
Cash and cash equivalents at the end of the period	$ 25,472	$ 5,280
Supplemental Cash Flow Information:		
Interest payments	$ 1,015	$ 903
Income tax payments	1,149	902
Non-cash items:		
Capitalized lease obligations		8,919
Cumulative effect of adoption of accounting for uncertainty of income taxes	1,208	
Conversion of 6% convertible subordinated debentures	15,354	7,250
Conversion of Series B convertible preferred stock		15,240
Accreted dividends on preferred stock		1,003
Transfer of equipment from inventory to property and equipment, net(a)	1,264	1,834
Transfer of equipment to inventory from property and equipment, net(b)	612	543

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

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

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Par Value $0.001	Additional Paid in Capital	Accumulated Deficit in Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands) (unaudited)			
Balance at December 31, 2006	$ 19	$ 132,566	$ (64,455)	$ 1,628	$ (89)	$ 69,669
Exercise of stock options	1	2,750				2,751
Conversion of subordinated debentures	1	15,131				15,132
Issuance (repurchase) of restricted stock awards		369			(15)	354
Stock compensation expense		1,933				1,933
Private placement	1	20,406				20,407
Cumulative effect of adoption of accounting for uncertainty of income taxes			(1,208)			(1,208)
Net loss			(8,093)			(8,093)
Foreign currency translation adjustment				1,117		1,117
Balance at September 30, 2007	$ 22	$ 173,155	$ (73,756)	$ 2,745	$ (104)	$ 102,062

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except per share data)
(Unaudited)

(1) Basis of Presentation

The accompanying 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 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. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2006, as amended by Form 10-K/A that the Company filed on August 2, 2007.

In the opinion of management, the unaudited 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 three and nine months ended September 30, 2007 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.

(2) Outsourcing of Assembly and Refurbishment Activities

The Company has outsourced its equipment assembly and refurbishment activities as well as the assembly of field service kits that it sells to customers to several selected design and engineering companies and suppliers. The outsourced activities include assembly of its 3-D modeling equipment, its SLA® systems and its SLS® systems. These suppliers also carry out quality control procedures on the Company s systems prior to their shipment to customers. As part of these activities, these suppliers have responsibility for procuring the components and sub-assemblies that are used in the Company s systems. The Company purchases finished systems from these suppliers pursuant to forecasts and customer orders that the Company supplies to them. While the outsource suppliers have responsibility for the supply chain of the components for the systems they assemble, the components, parts and sub-assemblies that are used in the Company s systems are generally available from several potential suppliers.

The Company sells components of its inventory of raw materials related to those systems to those third-party suppliers from time to time. Those sales have been recorded in the financial statements as a product financing arrangement under Statement of Financial Accounting Standards (SFAS) No. 49, Accounting for Product Financing Arrangements . Pursuant to SFAS No. 49, as of September 30, 2007 and December 31, 2006, the Company recorded a non-trade receivable of $1,079 and $2,429, respectively, in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets, reflecting the book value of the inventory sold to the assemblers for which the Company had not received payment. At September 30, 2007 and December 31, 2006, $513 and $1,048, respectively, remained in inventory with a corresponding amount included in accrued liabilities, representing the Company s non-contractual obligation to repurchase assembled systems and refurbished parts produced from such inventory.

Under these arrangements, the Company generally purchases assembled systems from the assemblers following its receipt of an order from a customer or as needed from the assembler to repair a component or to service equipment. Under certain circumstances, the Company anticipates that it may purchase assembled systems from the assemblers prior to the receipt of an order from a customer. At September 30, 2007 and December 31, 2006, the Company had advanced $652 and $698, respectively, of progress payments to

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3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assemblers for systems forecasted to be required for resale to customers. These progress payments were recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets.

(3) Inventories

Components of inventories, net are summarized as follows:

	September 30, 2007	December 31, 2006
Raw materials	$ 995	$ 531
Inventory held by assemblers	513	1,048
Work in process	62	
Finished goods (net of reserves of $2,822 and $2,353 respectively)	20,980	24,535
Total Inventories	$ 22,550	$ 26,114

(4) Property and Equipment

Property and equipment are summarized as follows:

	September 30, 2007	December 31, 2006	Useful Life (in years)
Building	$ 8,566	$ 8,496	25
Machinery and equipment	27,068	25,640	3-5
Capitalized software ERP system	3,077	2,975	5
Office furniture and equipment	3,494	3,428	5
Leasehold improvements	8,000	7,901	Lease term or less
Rental equipment	712	1,192	5
Construction in progress	687	43	N/A
Total property and equipment	51,604	49,675	
Less: Accumulated depreciation and amortization	(29,109)	(25,912)	
Total property and equipment, net of accumulated depreciation and amortization	$ 22,495	$ 23,763	

Depreciation expense for the three months and nine months ended September 30, 2007 was $1,099 and $3,152, respectively, compared to $648 and $1,921 for the three and nine months ended September 30, 2006, respectively.

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.

Leasehold improvements included $3,349 of capitalized costs for tenant improvements that the Company had made to its facility in Rock Hill, South Carolina at September 30, 2007 and December 31, 2006.

For the three months and nine months ended September 30, 2007 the Company recognized software amortization expense of $160 and $434, respectively, for capitalized enterprise resource planning (ERP) system costs compared to $156 and $246 for the three months and nine months ended September 30, 2006.

The Company ceased operations at its Grand Junction, Colorado facility during the second quarter of 2006 and listed the facility for sale. Subsequently, the Company reclassified approximately $3,454 of assets, net of accumulated depreciation, comprised primarily of $3,018 of building and improvements, net of accumulated depreciation, and $436 of land associated with the facility on its Condensed Consolidated

3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Balance Sheets from long-term assets to current assets, where they have been recorded as assets held for sale. The Company ceased to record depreciation expense related to this facility in the second quarter of 2006, which amounted to $570 per year.

(5) Intangible Assets

(a) Licenses and Patent Costs

Licenses and patent costs are summarized as follows:

	September 30, 2007		December 31, 2006		Weighted average useful life (in years)
Licenses, at cost	$	2,337	$	2,337	1.5
Patent costs		19,263		18,771	7.9
		21,600		21,108	
Less: Accumulated amortization		(17,528)		(16,272)	
Licenses and patent costs	$	4,072	$	4,836	

For the nine months ended September 30, 2007 and 2006, the Company capitalized $521 and $331, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries. Amortization expense of previously capitalized patent costs for the three months and nine months ended September 30, 2007 was $492 and $1,287, respectively, compared to $322 and $985 for the three and nine months ended September 30, 2006, respectively.

(b) Acquired Technology Costs

Acquired technology costs are summarized as follows:

	September 30, 2007		December 31, 2006	
Acquired technology	$	10,362	$	10,268
Less: Accumulated amortization		(10,362)		(9,320)
Acquired technology costs	$		$	948

Acquired technology, which was purchased in 2001 in connection with the DTM Corporation acquisition, became fully amortized at September 30, 2007. Amortization expense related to this technology for the three and nine months ended September 30, 2007 was $190 and $948, respectively, compared to $379 and $1,138 for the three and nine months ended September 30, 2006.

(c) Other Intangible Assets

The Company had $1,259 and $818 of other net intangible assets as of September 30, 2007 and December 31, 2006, respectively. Amortization expense related to such other intangible assets for the three and nine months ended September 30, 2007 was $20 and $61, respectively, compared to $218 and $371 for the three and nine months ended September 30, 2006.

3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Accrued and Other Liabilities

Accrued liabilities are summarized as follows:

	September 30, 2007	December 31, 2006
Compensation and benefits	$ 4,440	$ 4,427
Vendor accruals	2,694	3,868
Accrued taxes	1,714	374
Accrued professional fees	1,178	1,560
Non-contractual obligation to repurchase assembled systems (See Note 2)	513	1,048
Accrued interest	63	78
Other	1,094	1,222
Accrued liabilities	$ 11,696	$ 12,577

Other liabilities are summarized as follows:

	September 30, 2007	December 31, 2006
Defined benefit pension obligations	$ 2,420	$ 2,239
Other long term liabilities	975	795
Other liabilities	$ 3,395	$ 3,034

(7) Restructuring Costs

The Company incurred no restructuring costs for the three and nine months ended September 30, 2007. For the three and nine months ended September 30, 2006, the Company incurred $1,745 and $5,663, respectively, of restructuring costs primarily related to personnel, relocation and recruiting costs in connection with its relocation to Rock Hill, South Carolina. All accrued restructuring costs at December 31, 2006 were paid on or before September 30, 2007.

As a result of the closing and anticipated disposition of the Grand Junction facility discussed in Note 4 above, the following assets and liabilities were recorded on the Condensed Consolidated Balance Sheets at September 30, 2007 and the Consolidated Balance sheet at December 31, 2006:

	September 30,	December 31,

		2007		2006
Current assets:				
Assets held for sale	$	3,454	$	3,454
Restricted cash		1,200		1,200
Current liabilities:				
Industrial development bonds related to assets held for sale	$	3,325	$	3,545

The restricted cash is held on deposit as partial security for the Company s obligations under the industrial development bonds reflected above and therefore is not available to the Company for its general use.

3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Borrowings

Total outstanding borrowings were as follows:

	September 30, 2007	December 31, 2006
Current:		
Bank credit facility	$	$ 8,200
Industrial development bonds related to assets held for sale	3,325	3,545
Total current	3,325	11,745
Long-term:		
6% convertible subordinated debentures		15,354
Total debt	$ 3,325	$ 27,099

In the third quarter of 2007, the Company s outstanding 6% convertible subordinated debentures were converted into Common Stock, and the Company voluntarily prepaid the outstanding borrowings under its bank credit facility.

Silicon Valley Bank loan and security agreement

On October 1, 2007, the Company s loan and security agreement, as amended, with Silicon Valley Bank expired in accordance with its terms. The credit facility had provided that the Company and certain of its subsidiaries could borrow up to $15,000 of revolving loans, subject to a borrowing base tied to the Company s accounts receivable. The credit facility included sub-limits for letters of credit and foreign exchange facilities and was secured by a first lien in favor of the Bank on certain of the Company s assets, including domestic accounts receivable, inventory and certain fixed assets.

Interest accrued on outstanding borrowings at either the Bank s prime rate in effect from time to time or at a LIBOR rate plus a borrowing margin. Under the credit facility as last amended, the borrowing margins were 0 basis points for prime-rate loans and 275 basis points for LIBOR-rate loans. Prior to this amendment, the borrowing margins for prime-rate loans and LIBOR-rate loans were 100 basis points and 325 basis points, respectively. The Company was obligated to pay, on a quarterly basis, a commitment fee equal to 0.375% per annum of the unused amount of the credit facility prior to its expiration.

The credit facility imposed certain limitations on the Company s activities, including limitations on the incurrence of debt and other liens, limitations on the disposition of assets, limitations on the making of certain investments and limitations on the payment of dividends on the Company s Common Stock. The credit facility also required that the Company comply with certain financial covenants, including (a) commencing as of January 1, 2007 and continuing through October 1, 2007, a modified quick ratio (as defined in the credit facility) of at least 0.70 to 1.00 and, as of

December 31, 2006 and for certain prior periods, a modified quick ratio (as defined in the credit facility) of at least 0.80 to 1.00 and (b) a ratio of total liabilities less subordinated debt to tangible net worth (as each such term is defined in the credit facility) of not more than 2.00 to 1.00 as of December 31, 2006 and at the end of each calendar quarter thereafter. The credit facility also required that the Company comply with a modified minimum EBITDA (as defined in the credit facility) of not less than $3,000, $1,000 and $2,500 for the calendar quarters ended December 31, 2006, March 31, 2007 and June 30, 2007, respectively. For each subsequent twelve month period ending prior to October 1, 2007, the minimum EBITDA was $15,000. These requirements expired upon the expiration of the credit facility.

At September 30, 2007 and December 31, 2006, the Company had $0 and $8,200, respectively, of revolving borrowings outstanding under this credit facility. At September 30, 2007 and December 31, 2006,

3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively, the Company had $1,686 and $536 of foreign exchange forward contracts outstanding with the Bank. Under arrangements with the Bank, these foreign exchange contracts were permitted to remain outstanding until their respective settlement dates. See Note 9.

Industrial development bonds

The Company s Grand Junction, Colorado facility was financed by industrial development bonds in the original aggregate principal amount of $4,900. At September 30, 2007 and December 31, 2006, the outstanding principal amount of these bonds was $3,325 and $3,545, respectively. Interest on the bonds accrues at a variable rate of interest and is payable monthly. The interest rate at September 30, 2007 and December 31, 2006 was 3.94% and 4.01%, respectively. Principal payments are due in semi-annual installments through August 2016. The Company reclassified this indebtedness to current indebtedness in 2006 in anticipation of the sale of the Grand Junction facility. The Company has made all scheduled payments of principal and interest on these bonds. The bonds are collateralized by, among other things, a first mortgage on the facility, a security interest in certain equipment and an irrevocable letter of credit issued by Wells Fargo Bank, N.A. pursuant to the terms of a reimbursement agreement between the Company and Wells Fargo. The Company is required to pay an annual letter of credit fee equal to 1% of the stated amount of the letter of credit.

This letter of credit is in turn collateralized by $1,200 of restricted cash that Wells Fargo holds, which the Company reclassified as a short-term asset during 2006 in anticipation of its sale of the Grand Junction facility. Wells Fargo has a security interest in that restricted cash as partial security for the performance of the Company s obligations under the reimbursement agreement. The Company has the right, which it has not exercised, to substitute a standby letter of credit issued by a bank acceptable to Wells Fargo as collateral in place of the funds held by Wells Fargo.

The reimbursement agreement, as amended, contains financial covenants that require, among other things, that the Company maintain a minimum tangible net worth (as defined in the reimbursement agreement) of $23,000 plus 50% of net income from July 1, 2001 forward and a fixed-charge coverage ratio (as defined in the reimbursement agreement) of no less than 1.25 to 1.00. The Company is required to demonstrate its compliance with these financial covenants as of the end of each calendar quarter. On April 24, 2007, Wells Fargo agreed to waive the Company s non-compliance with the fixed-charge coverage ratio for the period ended December 31, 2006 and for each subsequent quarterly period ending on or before June 30, 2007. On October 10, 2007, Wells Fargo waived the Company s non-compliance with the fixed-charge coverage ratio for the period ended September 30, 2007.

6% convertible subordinated debentures

On July 20, 2007, the entire $14,845 aggregate principal amount of the 6% convertible subordinated debentures that were outstanding on that date was converted by their holders into shares of the Company s Common Stock. As a result of the conversion, the Company issued 1,458 shares of its Common Stock to the former holders of the debentures and paid the holders $122 of accrued and unpaid interest.

Prior to the conversion, the 6% convertible subordinated debentures bore interest at the rate of 6% per year payable semi-annually in arrears in cash on May 31 and November 30 of each year. They were convertible into shares of Common Stock at the option of the holders at any time prior to maturity at $10.18 per share.

At December 31, 2006, $15,354 aggregate principal amount of these debentures was outstanding.

3D SYSTEMS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) 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. The Company also, when it considers it to be appropriate, enters into foreign currency contracts to hedge exposures arising from those transactions. The Company has not adopted hedge accounting under SFAS No. 133, Accounting for Derivatives and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138, and all gains and losses (realized or unrealized) are recognized in cost of sales in the Condensed Consolidated Statements of Operations.

At September 30, 2007, the Company had $1,686 outstanding foreign currency contracts related primarily to inventory purchases from a third party. The notional amount of these contracts at September 30, 2007 aggregated 1,992 Swiss francs (equivalent to $1,686 at the settlement date). The fair value of this contract at September 30, 2007 was $1,712.

At December 31, 2006, these outstanding foreign currency contracts related primarily to purchases of inventory from third parties and intercompany purchase obligations of the Company s subsidiaries. The notional amount of these contracts at the settlement date was $3,023. The notional amount of the contracts related to purchases aggregated 641 Swiss francs (equivalent to $536 at the settlement date.) The respective notional amounts of the contracts related to intercompany purchase obligations at December 31, 2006 aggregated 1,500 euros (equivalent to $1,901 at the settlement date) and 315 pound sterling (equivalent to $586 at the settlement date). The fair value of these contracts at December 31, 2006 was $3,121.

The dollar equivalent of the foreign currency contracts and their related fair values as of September 30, 2007 and December 31, 2006 were as follows:

	Foreign Currency Purchase Contracts		Foreign Currency Sales Contracts	
	September 30, 2007	December 31, 2006	September 30, 2007	December 31, 2006
	(Dollars in thousands)			
Notional amount	$ 1,686	$ 536		$ 2,487
Fair value	1,712	526		2,595
Net unrealized gain (loss)	$ 26	$ (10)		$ (108)

The net fair value of all foreign exchange contracts at September 30, 2007 and December 31, 2006 reflected unrealized gains (losses) of $26 and $(118), respectively. The foreign currency contracts at September 30, 2007 expire at various times between October 10, 2007 and November 14, 2007.

Changes in the fair value of derivatives are recorded in cost of sales in the Consolidated Statements of Operations. Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid expenses and other current assets or in accrued liabilities on the Condensed Consolidated Balance Sheet.

The total impact of foreign currency derivatives on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2007 reflected gains (losses) of $18 and $31, respectively, compared to $(179) and $51 for the three and nine months ended September 30, 2006.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Capitalized Lease Obligations

The Company s future minimum lease payments under capitalized leases at September 30, 2007 and December 31, 2006 were $8,887 and $9,012, respectively. The current portion of those leases at September 30, 2007 and December 31, 2006 was $178 and $168, respectively.

(11) Preferred Stock

No preferred stock was issued or outstanding at September 30, 2007 or December 31, 2006. On June 8, 2006, all of the Company s then outstanding Series B Convertible Preferred Stock was converted by its holders into 2,640 shares of Common Stock. For the three and nine months ended September 30, 2006, the Company recognized $0 and $1,414, respectively, of dividend cost including $0 and $885, respectively, of accreted costs associated with initial offering costs.

(12) Stock-based Compensation Plans

The Company maintains stock-based compensation plans that are described more fully in Note 15, Stock-Based Compensation, to the Consolidated Financial Statements filed with the Company s Annual Report on Form 10-K for the year ended December 31, 2006, as amended by Form 10-K/A that the Company filed on August 2, 2007.

The Company records stock-based compensation expense in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. Stock-based compensation expense for the three and nine month periods ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Options	$			