3D SYSTEMS CORP
Form 424B3
March 19, 2008

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

PROSPECTUS SUPPLEMENT NO. 3
Dated March 19, 2008
(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 as supplemented by Prospectus Supplement No. 1 thereto dated November 1, 2007 and Prospectus Supplement No. 2 thereto dated January 24, 2008, 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 annual report on Form 10-K for the fiscal year ended December 31, 2007 as filed with the Securities and Exchange Commission on March 17, 2008.

**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 March 19, 2008

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

**Form 10-K**

| | |
|---|---|
| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the fiscal year ended December 31, 2007** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |

**Commission file number 0-22250**

**3D SYSTEMS CORPORATION**
*(Exact name of Registrant as specified in our 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, SC 29730**
*(Address of principal executive offices and zip code)*

**(803) 326-3900**
**(Registrant s telephone number, including area code)**

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

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common stock, par value $0.001 per share | The Nasdaq Stock Market LLC |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

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

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

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

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 o | Accelerated filer þ | Non-accelerated filer o (Do not check if smaller reporting company) | Smaller reporting company 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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant on June 29, 2007 was $411,953,000. For purposes of this computation, it has been assumed that the shares beneficially held by directors and officers of registrant were held by affiliates . This assumption is not to be deemed an admission by these persons that they are affiliates of the registrant.

The number of outstanding shares of the registrant s common stock as of February 15, 2008 was 22,334,137.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant s definitive proxy statement for our 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

**3D SYSTEMS CORPORATION**
**Annual Report on Form 10-K for the**
**Year Ended December 31, 2007**

**Table of Contents**

## PART I

### Item 1. *Business*

### General

3D Systems Corporation ( 3D Systems or the Company ) is a holding company that operates through subsidiaries in the United States, Europe and the Asia-Pacific region. We design, develop, manufacture, market and service a suite of additive manufacturing solutions including 3-D modeling, rapid prototyping and manufacturing systems and related products and materials that enable complex three-dimensional objects to be produced directly from computer data.

Our customers use our proprietary systems to produce physical objects from digital data using commonly available computer-aided design software, often referred to as CAD software, or other digital-media devices such as engineering scanners and MRI or CT medical scanners. Our systems ability to produce functional parts from digital art enables customers to create detailed prototypes or production-quality parts quickly and effectively without a significant investment in expensive tooling, greatly reducing the time and cost required to produce prototypes or to customize production parts.

Our systems use additive part-production processes for applications that require rapid design iterations, prototyping and manufacturing. We believe that our systems enable our customers to develop better quality, higher functionality new products faster and more economically than other, more traditional methods.

Our product development efforts are focused on expanding our portfolio of 3-D modeling and rapid manufacturing solutions, which we believe represent significant growth opportunities for our business. We also believe that our core rapid prototyping business continues to provide us with significant growth opportunities. In recent years, we have worked to develop new systems and materials and have enhanced our overall technology to rejuvenate and reshape our core business while developing new products that address our growing 3-D modeling and rapid manufacturing growth initiatives. With respect to the uses of our systems:

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

In 3-D modeling applications, our systems are used to produce three-dimensional shapes, primarily for visualizing and communicating concepts, various design applications and other applications, including supply-chain management, functional modeling, architecture, art, surgical modeling, medical end use applications such as hearing aids and dental uses, and entertainment.

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

Our products offer our customers an integrated systems solution consisting of equipment and embedded software, integrated consumable materials and customer service. Our extensive solutions portfolio is based on four distinct and proprietary technology platforms, discussed in greater detail below, that enable us to offer our customers a way to transform the manner in which they design, develop and manufacture their products.

**Products and Services**

Our principal technology platforms include our stereolithography or SLA® equipment, our selective laser sintering or SLS® equipment, and our 3-D modeling equipment, which include our multi-jet and layer-deposition equipment and our recently introduced film transfer imaging ( FTI ) equipment. These systems use patented and proprietary stereolithography, selective laser sintering and various 3-D modeling and film transfer

imaging methods and processes that take digital data input from CAD software or three-dimensional scanning and sculpting devices to fabricate physical objects from our proprietary family of engineered plastic, metal and composite materials.

We blend, market and distribute a wide range of proprietary consumable, engineered plastics, composites and materials that we market to produce physical parts from digital art using our systems. We augment and complement our own portfolio of engineered materials with materials that we purchase from third parties under private-label and distribution arrangements.

We provide to our customers a comprehensive suite of proprietary software tools that are embedded within our systems and pre-sale as well as post-sale field services, ranging from applications development to installation, warranty and maintenance services.

***Systems Solutions***

*SLA® systems and related equipment*

Stereolithography, or SLA®, systems convert our engineered materials and composites into solid cross-sections, layer by layer, until the desired fully fused objects are completely produced. Our SLA® systems are capable of making multiple similar or distinct objects at the same time and are designed to produce highly accurate objects in a wide range of sizes and shapes and material performance characteristics.

Stereolithography parts are known for their durability, fine feature detail, resolution and surface quality. Product designers, engineers and marketers in many large manufacturing companies throughout the world use our SLA® systems for a wide variety of applications, ranging from short production runs of end-use products, to producing prototype parts for automotive, aerospace and various consumer and electronic applications.

Our SLA® systems are capable of rapidly producing tools, fixtures, jigs and end-use parts, including parts for dental, hearing aid, jewelry and motor-sport applications. They are also designed for uses such as building functional models that enable users to share ideas and evaluate concepts, performing form, fit and function testing on working-assemblies and building master patterns for metal casting.

Our family of SLA® systems offers a wide range of capabilities, including size, speed, accuracy, throughput and surface finish in different formats and price points. These systems include our Viper™ Pro and the Viper Si™ SLA® systems. The Viper™ Pro SLA® system is an advanced, flexible, high-capacity stereolithography system that is designed to enable customers to mass customize and produce high-quality, end-use parts, patterns, wind tunnel models, fixtures and tools consistently and economically using our proprietary and other stereolithography materials. The Viper Si™ SLA® system operates in a similar fashion as the Viper™ Pro system but has a smaller build area and a lower build throughput rate and is capable of building smaller fine-featured parts.

*SLS® systems and related equipment*

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

The combination of materials flexibility, part functionality and high throughput of our SLS® technology makes it well suited for rapid manufacturing of durable parts, and most of our current development work is directed at advancing the

range and capabilities of our equipment and materials to address specific rapid manufacturing vertical opportunities such as aerospace, automotive, packaging machinery and motor sports applications.

Customer uses of our SLS® systems include functional test models and end-use parts, which enable our customers to create customized parts economically without tooling. We provide a metal package that enables certain of our SLS® systems to produce metal parts from several proprietary engineered metal composites that we sell. Early in 2008 we added two direct metal sintering systems to our portfolio through a private label

arrangement that we entered into with a third-party supplier. These new systems are capable of producing fully-densed direct metal parts from a variety of metal powders, including stainless steel, cobalt, titanium and tool steel.

Our family of SLS® systems includes the Sinterstation® Pro SLS® system, an automated selective laser sintering manufacturing system that is designed to enable our customers to mass customize and produce high-quality end-use parts, patterns, fixtures and tools consistently and economically from our proprietary engineered plastics, on-site and on-demand. We also produce and sell our Sinterstation® HiQ™ SLS® and the Sinterstation® HiQ™ high-speed or HS SLS® manufacturing-capable systems.

*3-D modeling systems*

Our expanding line of 3-D modelers is ideal for use in engineering design environments, marketing communication groups, jewelry and dental laboratory direct casting applications and within engineering schools and other educational institutions. Our range of 3-D modelers includes our multi-jet and layer-deposition equipment as well as our new Film Transfer Imaging ( FTI )-based equipment that we developed over the last several years and announced in 2007.

All of our 3-D modelers accept digital input from either a three-dimensional CAD station or a scanned 3-D image, converting this input data one slice thickness at a time, to create a solid part one layer at a time. These modelers offer superior finished surfaces, plug-and-play installation, point-and-print functionality and best-in-class part resolution in a variety of price points and materials.

Our portfolio of multi-jet modelers consists of several models, including our ProJet™ systems that we introduced early in 2008 and our family of InVision® systems. All of our modelers are designed to produce high-definition, functional and durable models for form, fit and function analysis, including certain models that are capable of ultra-fine resolution for precision dental and jewelry applications.

Early in 2007, we announced that we had developed a new desktop modeling FTI technology and that we planned to introduce several models based on this new technology starting with a general purpose desktop system that we branded as the V-Flash™ desktop 3-D modeler. Throughout 2007, we continued to refine this development while at the same time promoted, tested and demonstrated the V-Flash™ system in various venues, including global and regional trade shows. Consistent with our plan and ongoing marketplace communications, we deferred the commercial launch of our V-Flash™ Desktop Modeler pending satisfactory completion of its development. In October 2007, we unveiled and demonstrated the V-Flash™ HA 230 Manufacturing System, the first economical, high-speed desktop manufacturing system for custom hearing aid shells and molds. We expect to begin shipments of these FTI products toward the latter part of the first quarter of 2008.

As discussed above, we believe that, in addition to our focus on and pursuit of rapid manufacturing opportunities, 3-D modeling provides us with a significant opportunity for growth.

***Software***

As part of our comprehensive and integrated systems solutions, we offer embedded proprietary part-preparation software. This software is designed to enhance the interface between our customers digital data and our systems. Digital data, such as a three-dimensional CAD-produced digital image, is converted within our proprietary software so that, depending on the specific software, the image can be viewed, rotated and scaled, and model structures can be added. The software then generates the information that is used by the SLA® or SLS® system or by the 3-D modeler to create solid objects. From time to time, we also work with third parties to develop complementary software for our systems.

***Materials***

As part of our integrated systems approach to business, we blend, market, sell and distribute consumable, engineered plastic and metal materials and composites under several proprietary brand names for use in all of our systems. We market our stereolithography materials under the Accura® brand, our selective laser sintering

materials under the DuraForm®, CastForm™ and LaserForm™ brands, and materials for our 3-D modelers under the VisiJet® brand.

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

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

*Stereolithography engineered materials and composites*

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

Our portfolio of Accura® stereolithography materials includes general-purpose as well as specialized materials and composites that offer our customers the opportunity to choose the material that is best suited for the parts and models that they intend to produce. To further complement and expand the range of materials we offer to our customers, we also distribute SLA® materials under recognized third-party brand names.

In 2007, we introduced several new stereolithography materials including Accura® 55 Plastic, a material that simulates the look and feel of molded ABS, Accura® Xtreme Plastic, an extremely tough and versatile material, Accura® 48HTR Plastic, a material that endures challenging operating thermal environments, and Accura® Greystone Material, an advanced nanocomposite material. These materials are used primarily for the production of plastic-like functional parts, jigs, fixtures and functional parts for a variety of automotive, consumer, electronics durable goods and aerospace applications.

*Laser sintering materials and composites*

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

Our expanding family of DuraForm® materials includes CastForm™ and LaserForm™ proprietary SLS® materials. In 2007, we introduced DuraForm® EX Black Plastic and DuraForm® HST Plastic, a strong, temperature-resistant material. These two new materials are designed for rapid manufacturing applications.

Our SLS® materials are used to create functional end-use parts, prototypes and durable patterns as well as assembly jigs and fixtures. They are also used to produce flexible, rubber-like parts such as shoe soles, gaskets and seals, patterns for investment-casting, functional tooling such as injection molding tool inserts and end-use parts used in customized rapid manufacturing applications. Examples of rapid manufacturing parts produced by our customers using our SLS® systems include air ducts for aircraft and engine cowling parts for unmanned aerial vehicles. Product designers and developers from major automotive, aerospace and consumer products companies use DuraForm® parts

extensively as functional test models, even in harsh test environment conditions. Aerospace and medical companies also use our SLS® systems to produce end-use parts directly, which enables them to create customized parts economically without tooling. Parts made from DuraForm® and LaserForm™ materials are cost-effective and can compete favorably with traditional manufacturing methods, especially where part complexity is high. Competing alternatives to our technology generally involve, among other things, costs for tooling and minimum run quantities of the parts produced.

*3-D modeling materials*

Our family of VisiJet® 3-D Modeling materials includes part-building materials and compatible disposable support materials that are used in the modeling process and facilitate an easy melted away support removal process. These materials are sold to our customers packaged in proprietary smart cartridges that are used to produce parts in our 3-D Modelers. Our family of proprietary VisiJet® materials is ideal for study models and form, fit and function engineering studies. We also have specialty VisiJet® materials for direct casting applications specifically for jewelry custom manufacturing and various dental applications, including wax-ups for crown and bridge work.

***Customer Services***

We provide a suite of comprehensive customer services and local application and field support on a worldwide basis for all of our stereolithography and selective laser sintering systems. For our 3-D modeling systems, we provide these services and field support either directly or through a network of authorized resellers or other sources. We are continuing to build a reseller channel for our line of 3-D Modelers and to train our resellers to perform installations and service for those modelers. We have also entered into arrangements with selected outside service providers to augment our service capabilities with respect to each of our lines of equipment.

The services and field support that we provide include installation of new systems at the customer s site, system warranties, an extensive menu of annual maintenance agreement options and a wide variety of hardware upgrades, software updates and upgrades and performance enhancement packages to offer additional, flexible service contract options to our customers. We also provide services to assist our customers and resellers in developing new applications for our technologies, to facilitate the use of our technology for the customer s applications, to train customers on the use of newly acquired systems and to maintain our systems at the customer s site.

New SLS®, SLA® and 3-D Modeler systems are sold with on-site maintenance support that generally covers a warranty period ranging from 90 days to one year. We offer a full menu of service contracts that enables our customers to continue maintenance coverage beyond the initial warranty period. These service contracts are offered with various levels of support and are priced accordingly. We employ customer-support sales engineers in North America, several countries in Europe and in parts of Asia to support our worldwide customer base. As a key element of warranty and service contract maintenance, our sales engineers provide regularly scheduled preventive maintenance visits to customer sites. We also provide training to our distributors and resellers to enable them to perform these services.

We distribute spare parts on a worldwide basis to our customers, primarily from locations in the U.S. and Europe that a third-party service provider maintains for us.

We also offer upgrade kits for certain of our systems that we sell to existing customers to enable them to take advantage of new or enhanced system capabilities. However, beginning in 2006, we deliberately discontinued upgrade support for certain of our older legacy systems.

In connection with the relocation of our corporate headquarters and principal research and development facilities to Rock Hill, South Carolina in 2006, we worked with York Technical College in Rock Hill to develop a new training center called 3D Systems University, located adjacent to our Rock Hill facility. The facility operates as part of York Technical College to train our employees, customers, students and others in the use of our systems and technologies. This facility opened in 2007. Through this relationship, we expect to outsource a large portion of our training in the use and operation of our systems that we currently perform.

**Global Operations**

We operate in North America and in seven countries in Europe and the Asia-Pacific region, and we distribute our products in those countries as well as in other parts of the world. Sales of our products and services outside of the U.S. are a material part of our business, and they accounted for more than 50% of our consolidated revenue in each year in the three-year period ended December 31, 2007. Revenue in countries

outside of the U.S. accounted for 58.1%, 56.5%, and 53.0% of consolidated revenue in the years ended December 31, 2007, 2006 and 2005, respectively.

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

Financial information about geographic areas, including net sales and long-lived assets, for the years in the period ended December 31, 2007 appears in Note 21 to the Consolidated Financial Statements in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, which information is incorporated herein by reference.

**Marketing and Customers**

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

Our 3-D Modelers and our related materials and services are sold worldwide directly and through a network of authorized distributors and resellers who are managed and directed by a dedicated team of channel sales managers.

Our sales and marketing strategy focuses on an integrated systems approach that is directed to providing equipment, materials and services to meet a wide range of customer needs, including traditional prototyping, 3-D modeling and rapid manufacturing. Our sales organization is responsible for the sale of our products on a worldwide basis and for the management and coordination of our growing network of authorized 3-D modeling resellers and certain of our other systems. Our direct sales force consists of sales persons who work throughout North America, Europe and parts of the Asia-Pacific region. Our application engineers provide professional services through pre-sales support and help existing customers so that they can take advantage of our latest materials and techniques to improve part quality and machine productivity. This group also leverages our customer contacts to help identify new application opportunities that utilize our proprietary processes. As of December 31, 2007, our worldwide sales, application and service staff consisted of 171 employees.

Our customers include major companies in a broad range of industries, including manufacturers of automotive, aerospace, computer, electronic, defense, education, consumer and medical products. Purchasers of our systems include original equipment manufacturers or OEMs, government agencies and universities that generally use our systems for research activities, and independent service bureaus that provide rapid prototyping and manufacturing services to their customers for a fee. No single customer accounted for more than 5% of our consolidated revenue in the year ended December 31, 2007.

**Production and Supplies**

We have outsourced our equipment assembly and refurbishment activities to several selected design and engineering companies and suppliers. These suppliers also carry out quality control procedures on our 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 our systems. This has reduced our need to procure or maintain inventories of raw materials, work-in-process and spare parts related to our equipment assembly and maintenance activities. We purchase

finished systems from these suppliers pursuant to forecasts and customer orders that we supply to them. While the outsource suppliers of our systems have responsibility for the supply chain of the components for the systems they assemble, the components, parts and sub-assemblies that are used in our systems are generally available from several potential suppliers.

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

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

**Research and Development**

We maintain an ongoing program of research and development to develop new systems and materials to enhance our product lines as well as to improve and expand the capabilities of our systems and related software and materials. This includes all significant technology platform developments for SLA®, SLS®, 3-D modeling and FTI systems and materials. Our development efforts are augmented by development arrangements with research institutions, customers, suppliers of material and hardware and the assembly and design firms that we have engaged to assemble our systems. We also engage third-party engineering companies and specialty materials companies in specific development projects from time to time.

Research and development expenses were **$**14.4 million**,** $14.1 million and $12.2 million in 2007, 2006 and 2005, respectively. We expect that our annual research and development expenses will be in the range of $13 million to $14 million in 2008.

**Intellectual Property**

At December 31, 2007, we held 405 patents worldwide. At that date, we also had 169 pending patent applications worldwide.

The principal issued patents covering our stereolithography processes will expire at varying times through 2022. The principal issued patents covering our selective laser sintering processes will expire at varying times through 2024. The principal issued patents covering our multi-jet 3-D modeling processes expire at varying times through 2024. We have also filed a number of patent applications covering inventions contained in our recently introduced systems for each of our technology platforms.

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

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

**Competition**

Competition for most of our 3-D modeling, prototyping and rapid manufacturing systems is based primarily on process know-how, product application know-how and the ability to provide a full range of products and services to meet customer needs. Competition is also based upon innovations in 3-D modeling, rapid prototyping and rapid manufacturing systems and materials. Accordingly, our ongoing research and development programs are intended to

enable us to maintain technological leadership. Certain of the companies producing competing products or providing competing services are well established and may have greater financial resources than we have.

Our principal competitors are companies that manufacture machines that make, or that use machines to make, models, prototypes, molds and small-volume to medium-volume manufacturing parts. These include suppliers of computer numerically controlled machines and machining centers, commonly known as CNC,

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

Our competitors also include other suppliers of stereolithography, laser sintering and 3-D modeling systems and materials as well as suppliers of alternative additive manufacturing solutions such as suppliers of Fused Deposition Modeling or FDM technology and suppliers of vacuum casting equipment. Numerous suppliers of these products operate both internationally and regionally, and many of them have well-recognized product lines that compete with us in a wide range of our product applications.

We have also entered into licensing or cross-licensing arrangements with various companies in the United States and in other countries that enable those companies to utilize our technology in their products or that enable us to use their technologies in our products. Under certain of these licenses, we are entitled to receive, or we are obligated to pay, royalties for the sale of licensed products in the U.S. or in other countries. The amount of such royalties was not material to our results of operations or consolidated financial position for the three-year period ended December 31, 2007.

A number of companies currently sell materials that either complement or compete with those we sell, and there are a wide number of suppliers of services for the equipment that we sell.

We expect future competition to arise both from the development of new technologies or techniques not encompassed by the patents that we own or license, from the conventional machining, plastic molding and metal casting techniques discussed above, and through improvements to existing technologies, such as CNC and rotational molding.

**Employees**

At December 31, 2007, we had 332 full-time employees. None of these employees is covered by collective bargaining agreements although some of our employees outside of the U.S. are subject to local statutory employment arrangements. We believe that our relations with our employees are satisfactory.

**Available Information**

Our website address is *www.3dsystems.com.* The information contained on our website is neither a part of, nor incorporated by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC.

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

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

**Forward-Looking Statements**

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

In addition to the statements set forth below that explicitly describe risks and uncertainties to us, our business and our financial condition and results of operations, readers are urged to consider statements in future or conditional tenses or that include terms such as believes, belief, expects, intends, anticipates or plans that appear in this Annual Re Form 10-K 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, 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 that you read in this Annual Report on Form 10-K reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or to individuals acting on our behalf are expressly qualified in their entirety by this discussion. You should specifically consider the factors identified in this Annual Report on Form 10-K, which would cause actual results to differ from those referred to in forward-looking statements.

**Cautionary Statements and Risk Factors**

The risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of the following 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 could lose all or part of your investment in our common stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

***If we were unable to generate net cash flow from operations or if we were unable to raise additional capital, our financial condition would be adversely affected.***

During 2007 and 2006, we depended heavily on external financings to provide us with cash to support our operations. During these years, we also incurred $6.7 million and $30.7 million, respectively, of net losses available to common stockholders. Even if the favorable trend in our operations that we experienced in late 2007 were to continue, we cannot assure you that we would generate funds from operations or that capital would be available from external sources such as bank credit facilities, debt or equity financings or other potential sources to fund future operating costs, debt-service obligations and capital requirements.

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

***Our balance sheet contains several categories of intangible assets totaling $52.9 million that we could be required to write off or write down in the event of the impairment of certain of those assets arising from any deterioration in our future performance or other circumstances, which could adversely impact our future earnings and stock price, our ability to obtain financing and adversely affect our customer relationships.***

At December 31, 2007, we had $47.7 million in goodwill capitalized on our balance sheet. Statement of Financial Accounting Standards No. 142 ( SFAS No. 142 ) requires that goodwill and some long-lived intangibles be tested for impairment at least annually, with impairment being measured as the excess of the carrying value of the goodwill or intangible asset over the fair value of the underlying asset. In addition, goodwill and intangible assets are tested more often for impairment as circumstances warrant, and such testing could result in write-downs of some of our goodwill and long-lived intangibles. Accordingly, we may, from time to time, incur impairment charges, which are recorded as operating expenses when they are incurred and would reduce our net income and adversely affect our operating results in the period in which they are incurred.

As of December 31, 2007, we had $5.2 million of other net intangible assets, consisting of licenses, patents, acquired technology and other intangibles that we amortize over time. Any material impairment to any of these items could reduce our net income and could affect the trading price of our common stock in the period in which they are incurred.

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

***A risk exists that we may have to restate our financial statements***

While we believe that the information set forth in this Annual Report on Form 10-K complies with Section 13(a) of the Securities and Exchange Act of 1934 (the Securities and Exchange Act ) and that the financial information contained therein fairly presents, in all material aspects, our financial condition and results of operations for the years and periods presented, the SEC or other authorities may disagree with the manner in which we reported various matters or we may discover additional information that impacts the information contained therein. Accordingly, we may be required to restate our financial statements, to amend our prior filings with the SEC or to take other actions that we do not currently contemplate.

***If we do not make future filings with the SEC in a timely manner, our stock may be delisted.***

In the period from September 30, 2006 through March 31, 2007, we did not file certain periodic reports with the SEC in a timely manner and received notices from the Nasdaq Stock Market, LLC that we were not in compliance with its rules, which require timely filing of periodic reports in order to maintain our continued listing on that securities exchange. Although these matters were resolved favorably to us, future delays in the filing of timely periodic reports may negatively affect the listing of our common stock. As a consequence of such delisting, if it were to occur, an investor could find it more difficult to dispose of, or to obtain quotations as to the price of, our common stock. Delisting of our common stock could also result in lower prices per share of our common stock than would otherwise prevail.

***We rely significantly on enterprise resource technology systems to operate our business, and any failure, inadequacy, interruption, or security lapse of those systems or their related technology could adversely affect our ability to effectively operate our business.***

Our ability to effectively manage and maintain our inventory and internal reports and to ship products to customers and invoice them on a timely basis depends significantly on our enterprise resource planning system to which we

make modifications on an on-going basis.

If we were to fail to operate this system or to enter, maintain and process records in it correctly, if the system failed to operate effectively or to integrate with other systems, or a breach in security of this system

occurred, we could be subject to delays in product fulfillment and reduced efficiency of our operations, we could be required to incur significant capital investments to remediate any such failure, problem or breach, and our ability to prepare timely and accurate financial information could be impaired.

Any of these events could have a material adverse effect on our business, operations, results of operations and financial condition.

***We face continuing risks from transitioning our inventory management and distribution to a third-party service provider.***

During 2006, we outsourced the logistics and warehousing of our spare-parts inventory and certain of our finished goods supply activities to a third-party service provider. In transitioning these responsibilities to the third-party provider and in using its services, we continue to face a number of risks, including:

- The risk that the third-party service provider may not perform its logistics and warehousing tasks in a satisfactory manner;

- The risk of disruption in the supply of spare parts or other items to our customers if the third party does not perform the logistics and warehousing services, and, as a result, we are unable to maintain sufficient inventory or to timely distribute spare parts or other items to meet our customers demands;

- The risk that we will not realize the anticipated financial and operational benefits that we expect to receive from transitioning these services to and from using a third party; and

- The risk that deficiencies in the internal controls of the third-party service provider could compromise the data we receive from it and negatively impact our disclosure controls and procedures and internal control over financial reporting.

***We have identified material weaknesses in our internal control over financial reporting, which could continue to impact negatively our ability to report our results of operations and financial condition accurately and in a timely manner.***

*We have identified material weaknesses in our internal control over financial reporting.*

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an evaluation of the effectiveness of our internal control over financial reporting at December 31, 2007. We identified material weaknesses in our internal control over financial reporting and concluded that, as of December 31, 2007, we did not maintain effective control over financial reporting based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. For a detailed description of these material weaknesses, see Item 9A, Controls and Procedures. Our material weaknesses result in a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. As a result, we must perform additional work to obtain reasonable assurance regarding the reliability of our financial statements. Even with this additional work, there is a risk of additional errors not being prevented or detected, which could result in restatements.

***We face risks in connection with our ability to successfully centralize the administrative functions for all of our European subsidiaries at a new shared service center.***

We are continuing to transition most of the administrative functions for our European subsidiaries to a centralized shared service center located in the United Kingdom. We face ongoing risks in connection with this undertaking, including:

The risk that we may face unforeseen delays in centralizing the administrative functions of our European subsidiaries;

The risk that we may lose employees who are important to our business as a result of relocating and centralizing these administrative functions; and

The risk that employees whom we hire to replace these employees may not perform their tasks in a satisfactory manner.

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

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

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

***We face risks in connection with the effect of new pronouncements by accounting authorities.***

From time to time, accounting authorities issue new rules and pronouncements that may have adverse effects on our reported results of operations or financial condition, may influence customers ability and willingness to make capital expenditures such as purchases of our systems or may otherwise have material adverse effects on our business and profitability.

***We face risks in connection with our success in acquiring and integrating new businesses.***

In the past, we have acquired other businesses and technologies as part of our growth and strategic plans. We may make future acquisitions, and those acquisitions may be subject to certain risks, including risks that the costs of such acquisitions may be greater than anticipated and that the anticipated benefits of such acquisitions may be materially delayed or not realized.

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

We continuously work to expand and improve our product offerings, including our systems, materials and services, the number of geographic areas in which we operate and the distribution channels we use to reach various target product applications and customers. This variety of products, applications and channels involves a range of gross profit margins that can cause substantial quarterly fluctuations in gross profit and gross profit margin depending upon the variety of product shipments from quarter to quarter. We may experience significant quarterly fluctuations in gross profit margins or operating income or loss due to the impact of the variety of products, channels or geographic areas in which we sell our products from period to period.

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

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

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

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

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

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

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

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

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

We are affected by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new standards and practices, any of which could render our existing products and proprietary technology and systems obsolete. We believe that to remain competitive we must continually enhance and improve the functionality and features of our products, services and technologies. Therefore, there is a risk that we may not be able to:

Develop or obtain leading technologies useful in our business;

Enhance our existing products;

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

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

Recruit and retain key technology employees.

***We depend on a single or limited number of suppliers for components and sub-assemblies used in our systems and raw materials used in our materials. If these relationships were to terminate, our business could be disrupted while we locate an alternative supplier and our expenses may increase.***

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

While there are several potential suppliers of the material components, parts and subassemblies for our products, we currently choose to use only one or a limited number of suppliers for several of these

components, including our lasers, materials and certain jetting components. Our reliance on a single or limited number of vendors involves many risks including:

Potential shortages of some key components;

Product performance shortfalls; and

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

***If any of our suppliers suffers business disruptions or financial difficulties, or if there is any significant change in the condition of our relationship with the supplier, our cost of goods sold may increase and we may be unable to obtain these components from alternative sources quickly.***

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

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

***We face risks in connection with the outsourcing of the assembly of our equipment models to selected design and manufacturing companies.***

We have engaged selected design and manufacturing companies to assemble our equipment portfolio, including our SLA®, SLS® and 3-D modeling systems. In carrying out these outsourcing activities, we face a number of risks, including:

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

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

The risks that we face, as discussed above, in dealing with a limited number of suppliers.

***Many factors, many of which are beyond our control, may cause fluctuations in our operating results.***

Our operating results could adversely be affected by the following factors:

Acceptance and reliability of new products in the marketplace;

Size and timing of product shipments;

Fluctuations in the costs of materials and parts;

Currency and economic fluctuations in foreign marketplaces and other factors affecting international business activities;

Price competition;

Delays in the introduction of new products;

General worldwide economic conditions;

Changes in the variety of products and services sold;

Impact of ongoing litigation; and

Impact of changing technologies.

***We face risks associated with conducting business outside of the U.S., and, if we do not manage these risks, our costs may increase, our revenue from operations outside of the U.S. may decline, and we may suffer other adverse effects to our results of operations and financial condition.***

More than 50% of our consolidated revenue is derived from customers in countries outside of the U.S. There are many risks inherent in business activities outside of the U.S. that, unless managed properly, may adversely affect our profitability, including our ability to collect amounts due from customers. While most of our operations outside of the U.S. are conducted in highly developed countries, they could be adversely affected by:

Unexpected changes in regulatory requirements;

Export controls, tariffs and other barriers;

Social and political risks;

Fluctuations in currency exchange rates;

Seasonal reductions in business activity in certain parts of the world, particularly during the summer months in Europe;

Limited protection for intellectual property rights in some countries;

Difficulties in staffing and managing foreign operations;

Taxation;

Terrorism; and,

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

***Political and economic events and the uncertainty resulting from them may have a material adverse effect on our market opportunities and operating results.***

Terrorism in Iraq, Afghanistan and elsewhere and continued violence in the Middle East and elsewhere and the related U.S. military campaigns have created many economic and political uncertainties, some of which may materially harm our business and revenue. As a result of these uncertainties, spending on capital equipment of the type that we sell may be weaker than spending in the economy as a whole. These uncertainties may also lead our customers in certain industries to delay not only purchases of equipment and systems but also the materials and services that we sell as well.

The long-term effects of these uncertainties on our customers, the trading price for our common stock, the market for our services and the U.S. economy as a whole are uncertain. The consequences of any additional terrorist attacks or of any expanded armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our market opportunities or our business.

***Laws that inhibit takeovers may adversely affect the market price of our common stock.***

Various provisions of Delaware law may inhibit changes in control not approved by our Board of Directors and may have the effect of depriving our stockholders of an opportunity to receive a premium over the prevailing market price of our common stock in the event of an attempted hostile takeover.

One of these Delaware laws prohibits us from engaging in a business combination with any interested stockholder (as defined in the statute) for a period of three years from the date that the person became an interested stockholder, unless certain conditions are met.

***Our operating results vary from quarter to quarter, which could impact our stock price.***

Our operating results fluctuate from quarter to quarter and may continue to fluctuate in the future. In some quarters, it is possible that results could be below expectations of analysts and investors. If so, the price of our common stock may be volatile or may decline.

***Historically, our common stock has been characterized by generally low daily trading volume, and our common stock price has been volatile.***

The price of our common stock ranged from $14.28 to $26.50 per share during 2007.

Factors that may have a significant impact on the market price of our common stock include:

Our perceived value in the securities markets;

Future announcements concerning developments affecting our business or those of our competitors, including the receipt or loss of substantial orders for products;

Overall trends in the stock market;

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

Changes in recommendations of securities analysts; and

Sales or purchases of substantial blocks of stock.

***The number of shares of common stock issuable upon the exercise of outstanding stock options could dilute your ownership and negatively impact the market price for our common stock.***

Approximately 1.1 million shares of common stock were issuable upon the exercise of outstanding stock options at December 31, 2007, all of which were then exercisable.

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

The Board of Directors is authorized to issue classes and series of our authorized preferred stock without further action of the stockholders and in that regard to determine the issue price, rights, preferences and privileges of any such class or series of preferred stock without in most cases any further vote or action by the stockholders. The rights of the holders of any outstanding series of preferred stock may adversely affect the rights of holders of common stock.

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

***Our debt level could adversely affect our financial health and our ability to run our business.***

As of December 31, 2007, our outstanding debt, including outstanding capitalized lease obligations related primarily to our Rock Hill, South Carolina facility, had declined to $12.2 million from $36.1 million at December 31, 2006.

This debt included in both 2007 and 2006 the capitalized lease value of our Rock Hill, South Carolina facility, the financing of certain furniture and fixtures for the Rock Hill facility and the industrial development bonds covering our Colorado facility. In 2006, this debt also included our then outstanding 6% convertible subordinated debentures, all of which were converted into common stock in 2007, and $8.2 million of outstanding revolving credit borrowings.

This level of debt could have important consequences to you as a holder of common stock. We have identified below some of the material potential consequences resulting from this significant amount of debt:

We could be unable to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes.

Our ability to adapt to changing market conditions could be hampered, and we could be more vulnerable in a volatile market and at a competitive disadvantage to our competitors that have less debt.

Our operating flexibility could be limited by restrictive covenants contained in credit documents such as restrictions on incurring additional debt, creating liens on properties, making acquisitions and paying dividends and requirements that we satisfy certain financial covenants such as the maintenance of certain levels of net worth, interest coverage ratios, fixed-charge coverage ratios or other financial covenants.

We could be subject to the risks that interest rates, interest expense and fixed charges will increase.

We could be subject to the risk of default under one or more of these obligations, thereby causing acceleration of outstanding debt.

Our ability to plan for, or react to, changes in our business may be more limited. Our operating results may be insufficient to achieve compliance with financial covenants in financing documents, thereby causing acceleration of outstanding debt.

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

On November 30, 2007, the staff of the SEC s Division of Corporation Finance (the SEC Staff ) issued a comment letter to us regarding our Form 10-K/A for the Fiscal Year Ended December 31, 2006 and our Form 10-Q for the Quarterly Period Ended September 30, 2007. We responded to the SEC Staff s comments on February 7, 2008, and the SEC Staff replied with additional comments on March 4, 2008. We do not believe that those comments are material in nature. However, no assurances can be given that we will not receive additional comments from the SEC Staff or that the SEC Staff will agree with our assessment of those comments.

**Item 2.** ***Properties.***

We lease all of our current operating facilities.

We took occupancy of our new 80,000 square foot headquarters and research and development facility in Rock Hill, South Carolina, in November 2006. We lease that facility pursuant to a lease agreement with KDC-Carolina Investments 3, LP. After its initial term ending August 31, 2021, the lease provides us with the option to renew the lease for two additional five-year terms as well as the right to cause KDC, subject to certain terms and conditions, to expand the leased premises during the term of the lease, in which case the term of the lease would be extended. The lease is a triple net lease and provides for the payment of base rent of $0.7 million annually in 2007 through 2020, including rent escalations in 2011 and 2016, and $0.5 million in 2021. Under the terms of the lease, we are obligated to pay all taxes, insurance, utilities and other operating costs with respect to the leased premises. The lease also grants us the right to purchase the leased premises and undeveloped land surrounding the leased premises on terms and conditions described more particularly in the lease.

The lease for our 78,000 square-foot Valencia facility, which previously served as our headquarters and principal R&D, facility expired on January 31, 2008. The annual cost of that lease amounted to approximately $0.8 million,

which we incurred as an operating cost, and in connection with vacating that facility, we agreed in January 2008 to pay the landlord $350,000 for certain refurbishments to the facility. As we vacated our former Valencia facility, we entered into a lease at another location in Valencia for an 11,000 square-foot advanced research and development facility.

As previously disclosed, we ceased operations at our 67,000 square foot Grand Junction facility on April 28, 2006. Effective May 1, 2006, we reclassified the net assets associated with the facility, which amounted to $3.5 million, from long-term assets to current assets on our Consolidated Balance Sheet, where they are recorded as assets held for sale at December 31, 2007 and December 31, 2006. Following the closing of the Grand Junction facility, we ceased to record depreciation expense related to this facility, which amounted to $0.6 million per year. The Grand Junction facility is currently listed for sale or lease. During 2006, we realized $0.2 million in proceeds from the sale of certain personal property associated with this facility that we no longer needed for our operations. This facility was originally financed by industrial development bonds for which this facility serves as security. We expect to pay off those bonds when the facility is sold. See Notes 5 and 12 to the Consolidated Financial Statements.

As a result of relocating to Rock Hill, we substantially reduced the total size of the facilities that we previously operated in the United States. We expect to realize operating cost savings from this consolidation of our operations.

We also lease a 9,000 square-foot general-purpose facility in Marly, Switzerland at which we blend stereolithography and 3-D modeling materials and composites and sales and service offices in Texas, Massachusetts, France, Germany, the United Kingdom, Italy, Japan and Hong Kong.

We believe that the facilities described above currently are adequate to meet our needs for the immediate future.

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

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

**Item 4.** ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

**Executive and Other Officers**

The information appearing in the table below sets forth the current position or positions held by each of our officers and his age as of March 1, 2008. All of our officers serve at the pleasure of the Board of Directors. There are no family relationships among any of our officers or directors.

| Name and Current Position | Age as of March 1, 2008 |
|---|---|
| Abraham N. Reichental<br>President and Chief Executive Officer | 51 |
| Charles W. Hull<br>Executive Vice President, Chief Technology Officer | 68 |
| Brian K. Fraser<br>Vice President | 46 |
| Stephen M. Goddard<br>Vice President | 44 |
| Robert M. Grace, Jr. | 61 |

| | |
|---|---|
| Vice President, General Counsel and Secretary | |
| Damon J. Gregoire | 39 |
| Vice President and Chief Financial Officer | |
| Kevin P. McAlea | 49 |
| Vice President | |

Mr. Reichental was elected President and Chief Executive Officer effective September 19, 2003. Previously, he was employed by Sealed Air Corporation, a global manufacturer of food, protective and

specialty packaging materials, for 22 years in various technical, marketing and operating positions, most recently serving as a corporate officer and Vice President and General Manager of the Shrink Packaging Division from May 2001 until September 2003 and from June 1999 until April 2001 as Vice President Asia-Pacific.

Dr. Hull is a founder of the company and has served in various executive positions since 1986.

Mr. Fraser was elected a Vice President effective January 16, 2006. Previously, he was employed by Sealed Air Corporation for more than five years in various sales and management positions, most recently serving as Vice President of its Shrink Packaging Division in Europe.

Mr. Goddard joined us on October 27, 2003 and was elected a Vice President effective December 9, 2004. Prior to joining us, he was employed by Sealed Air Corporation from May 2002 to October 2003 in various operational and manufacturing performance-improvement leadership roles. For the previous four years, he worked for McKinsey & Company, a business consulting firm.

Mr. Grace was elected Vice President, General Counsel and Secretary effective November 3, 2003. Previously, he was employed by Sealed Air Corporation for 22 years, most recently serving as a Special Counsel from 1996 to 2003 and previously as General Counsel and Secretary.

Mr. Gregoire joined us on April 25, 2007 as Vice President and Chief Financial Officer. Previously, he was employed by Infor Global Solutions, Inc., an international software company, as Vice President of Finance since 2006 with responsibility for its Datastream Systems and Customer Relationship Management division. Mr. Gregoire previously served as Corporate Controller of Datastream Systems Inc., a software company, from 2005 until it was acquired by Infor Global Solutions, Inc. in March 2006. From 2001 to 2005, Mr. Gregoire served as Director of Accounting and Financial Analysis of Paymentech, L.P., an international credit card processing company.

Dr. McAlea was elected a corporate Vice President in May 2003 and, from September 2001 to May 2003, served as Vice President and General Manager, Europe. For more than five years prior to September 2001, he served in marketing, technical and executive positions with DTM Corporation, which we acquired in August 2001. At DTM, his last position was Vice President, Marketing and Business Development.

## PART II

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The following table sets forth, for the periods indicated, the range of high and low prices of our common stock, $0.001 par value, as quoted on the Nasdaq Stock Global Market. Our common stock trades under the symbol TDSC.

| Year | Period | High | Low |
|---|---|---|---|
| 2006 | First Quarter | $ 23.31 | $ 17.40 |
| | Second Quarter | $ 23.87 | $ 18.24 |
| | Third Quarter | $ 20.43 | $ 13.65 |
| | Fourth Quarter | $ 19.27 | $ 13.62 |
| 2007 | First Quarter | $ 21.91 | $ 14.28 |
| | Second Quarter | $ 25.60 | $ 18.16 |
| | Third Quarter | $ 26.50 | $ 19.35 |
| | Fourth Quarter | $ 24.99 | $ 14.83 |

As of February 15, 2008, our outstanding common stock was held of record by approximately 351 stockholders.

**Dividends**

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

The payment of dividends on our common stock may be restricted by the provisions of credit agreements or other financing documents that we may enter into or the terms of securities that we may issue from time to time.

**Issuer Purchases of Equity Securities**

We did not repurchase any of our equity securities during the fourth quarter of 2007, except for unvested restricted stock awards repurchased pursuant to our 2004 Incentive Stock Plan. See Note 14 to the Consolidated Financial Statements.

**Stockholder Performance Graph**

The graph below shows, for the five years ended December 31, 2007, the cumulative total return on an investment of $100 assumed to have been made on December 31, 2002 in our common stock. For purposes of the graph, cumulative total return assumes the reinvestment of all dividends. The graph compares such return with that of comparable investments assumed to have been made on the same date in (a) the Nasdaq Composite Index and (b) the S & P Information Technology Index, which are published Standard & Poor s market indices with which we are sometimes compared.

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

Our common stock is quoted on The Nasdaq Stock Market s Global Market (trading symbol: TDSC).

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

* $100 invested on 12/31/02 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

| | **12/02** | **12/03** | **12/04** | **12/05** | **12/06** | **12/07** |
|---|---|---|---|---|---|---|
| 3D Systems Corporation | 100.00 | 130.14 | 254.88 | 230.76 | 204.57 | 197.93 |
| Nasdaq Composite | 100.00 | 150.79 | 164.60 | 168.08 | 185.55 | 211.29 |
| S & P Information Technology | 100.00 | 147.22 | 150.99 | 152.48 | 165.30 | 192.21 |

**Item 6.** ***Selected Financial Data.***

The selected consolidated financial data set forth below for the five years ended December 31, 2007 has been derived from our historical consolidated financial statements. You should read this information together with Management s Discussion and Analysis of Financial Condition and Results of Operations, the notes to the selected consolidated financial data, and our consolidated financial statements and the notes thereto for the year ended December 31, 2007 included in this Annual Report on Form 10-K.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2007** | **2006(1)** | **2005(1)** | **2004(1)** | **2003(1)** |
| | **(In thousands, except per share amounts)** | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Consolidated Revenue: | | | | | |
| Systems and other products | $ 58,178 | $ 46,463 | $ 55,133 | $ 46,208 | $ 41,081 |
| Materials | 61,969 | 52,062 | 44,648 | 37,999 | 32,003 |
| Services | 36,369 | 36,295 | 39,297 | 41,403 | 36,931 |
| Total | 156,516 | 134,820 | 139,078 | 125,610 | 110,015 |
| Gross profit(2) | 63,460 | 46,257 | 62,162 | 56,556 | 43,143 |
| Income (loss) from operations(2) | (5,129) | (25,691) | 8,415 | 6,062 | (14,974) |
| Cumulative effect of changes in accounting principles(2) | | | | | (7,040) |
| Net income (loss)(3) | (6,740) | (29,280) | 9,406 | 3,020 | (26,023) |
| Series B convertible preferred stock dividends(4) | | 1,414 | 1,679 | 1,534 | 867 |
| Net income (loss) available to common stockholders | (6,740) | (30,694) | 7,727 | 1,486 | (26,890) |
| Net income (loss) available to common stockholders per share(1): | | | | | |
| Basic | $ (0.33) | $ (1.77) | $ 0.52 | $ 0.11 | $ (2.10) |
| Diluted | $ (0.33) | $ (1.77) | $ 0.48 | $ 0.11 | $ (2.10) |
| **Consolidated Balance Sheet Data:** | | | | | |
| Working capital | 40,906 | 17,335 | $ 43,809 | $ 28,545 | $ 18,823 |
| Total assets | 167,385 | 166,194 | 153,800 | 135,028 | 134,205 |
| Current portion of long-term debt and capitalized lease obligations | 3,506 | 11,913 | 200 | 180 | 165 |
| Long-term debt and capitalized lease obligations, less current portion | 8,663 | 24,198 | 26,149 | 26,449 | 36,629 |
| Series B convertible preferred stock(4) | | | 15,242 | 15,196 | 15,210 |
| Total stockholders equity | 104,769 | 69,669 | 70,212 | 55,656 | 38,258 |
| **Other Data:** | | | | | |
| Depreciation and amortization | 6,970 | 6,529 | 5,926 | 6,956 | 8,427 |
| Interest expense | 1,830 | 1,645 | 1,755 | 2,490 | 2,990 |

| | | | | | |
|---|---|---|---|---|---|
| Capital expenditures(5) | 946 | 10,100 | 2,516 | 781 | 874 |

(1) We restated our financial statements during 2006 as a result of our identification of errors in the financial statements.

The effect of these restatements on our operating results for the years ended December 31, 2005 and 2004, respectively, was as follows (in thousands, except per share data):

| | Year Ended December 31, 2005 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| Consolidated revenue | $ 139,670 | $ (592) | $ 139,078 |
| Net income | $ 10,083 | $ (677) | $ 9,406 |
| Net income (loss) per share available to common stockholders: | | | |
| Basic | $ 0.56 | $ (0.04) | $ 0.52 |
| Diluted | $ 0.53 | $ (0.05) | $ 0.48 |

| | Year Ended December 31, 2004 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | Restated |
| Consolidated revenue | $ 125,379 | $ 231 | $ 125,610 |
| Net income | $ 2,561 | $ 459 | $ 3,020 |
| Net income per share available to common stockholders: | | | |
| Basic | $ 0.08 | $ 0.03 | $ 0.11 |
| Diluted | $ 0.07 | $ 0.04 | $ 0.11 |

We corrected an error related to the manner in which we recorded and maintained goodwill related to the acquisition in 2001 of our Swiss subsidiary, 3D Systems S.A. Neither this error nor its correction had any effect on net income (loss) reported for any period on our Consolidated Statements of Operations. As a result of the correction of this error, at December 31, 2006 our Consolidated Balance Sheet reflects an $1,822 cumulative net increase in goodwill and a corresponding cumulative net increase in other comprehensive income (loss), together with appropriate adjustments to stockholders equity, arising from foreign currency translation related to such goodwill in each year ended on or before December 31, 2006. Such net increase in other comprehensive income (loss) consists of a $1,719 increase through December 31, 2003, an additional $574 increase for the year ended December 31, 2004, a $969 decrease for the year ended December 31, 2005 and a $498 increase for the year ended December 31, 2006.

(2) As of December 31, 2003, we changed our method of accounting for legal fees incurred in the defense of our patents, and we changed our method of accounting for amortization of one of our patent licenses. We treated each of these as a change in accounting principle. The cumulative effect in 2003 of the change in our method of accounting for legal fees incurred in the defense of our patents and the change in our method of accounting for amortization of one of our patent licenses was $1.1 million and $5.9 million, respectively. Basic and diluted net loss per share in 2003 included a loss of $0.55 per share arising from the cumulative effect of these changes in accounting principles. Before giving effect to such cumulative effect, basic and diluted net loss per share amounted to $1.55.

(3)

Net income in 2005 included a $2.5 million non-cash benefit arising from the reduction of the valuation allowance that we maintain against our deferred income tax assets. In 2006, however, we recorded a $2.5 million valuation allowance against this deferred income tax asset (before giving effect to the benefit of $748 of foreign net deferred income tax assets that we recognized in 2006) that had the effect of reversing the 2005 reduction of our valuation allowance as a result of our determination that it was more likely than not that we would not be able to utilize this deferred income tax asset to offset anticipated U.S. income. We believe that these entries were prudent and appropriate in accordance with SFAS No. 109, Accounting for Income Taxes. See Notes 2 and 20 to the Consolidated Financial Statements.

(4) On June 8, 2006, all of our then outstanding Series B Convertible Preferred Stock was converted by its holders into 2,639,772 shares of common stock, including 23,256 shares of common stock covering accrued and unpaid dividends to June 8, 2006. As a consequence of the conversion of the Series B Convertible Preferred Stock, commencing with the third quarter of 2006, we ceased recording dividends with respect to the outstanding Series B Convertible Preferred Stock that we paid from its original issuance in May 2003 until its full conversion in June 2006. See Note 13 to the Consolidated Financial Statements.

(5) Excludes capital lease additions.

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

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

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

***Overview***

We design, develop, manufacture, market and service 3-D modeling, rapid prototyping and manufacturing systems and related products and materials that enable complex three-dimensional objects to be produced directly from computer data without tooling, greatly reducing the time and cost required to produce prototypes or customized production parts. Our consolidated revenue is derived primarily from the sale of our systems, the sale of the related materials used by the systems to produce solid objects and the provision of services to our customers.

***Growth strategy.***

We are continuing to pursue a growth strategy that focuses on seven strategic initiatives:

Improving our customer s bottom line;

Developing significant product applications;

Expanding our range of customer services;

Accelerating new product development;

Optimizing cash flow and supply chain;

Creating a performance-based ethical culture; and

Developing people and opportunities.

*Improving our customer s bottom line.* We believe that our success depends on the success of our customers. Understanding our customers objectives and businesses should enable us to quickly incorporate their needs into our product offerings and to offer them effective solutions to their business needs. By offering them effective solutions to their needs, we should be able to provide them with solutions that significantly improve their own profitability.

*Developing significant product applications.* We believe that our ability to focus on industries that provide significant growth opportunities enables us to accelerate the adoption of our business solutions and to create significant new applications for a continually expanding customer base. By focusing our efforts on two significant addressable opportunities, 3-D Modeling and Rapid Manufacturing, we are working to build a business model that can provide sustained growth. Pursuing these market opportunities also complements our strategy to increase, as a percent of total

revenue, the amount of revenue we derive from materials and other consumables. Our materials are used in these systems and provide a recurring revenue stream, which should be less sensitive to cyclical economic behavior.

*Expanding our range of customer services.* We believe that our desire to improve our customer s bottom line demands the creation of new and innovative services designed to meet specific customer needs. We are working to establish faster, simpler business practices designed to make our customer experience with us easier and friendlier.

*Accelerating new product development.* We believe that our growth depends on our ability to bring to market new materials, systems and services through quick and targeted development cycles. Technology and innovation are at the heart of this initiative. As an industry leader, we believe that the only sure way to sustain growth is through our commitment to technological leadership.

*Optimizing cash flow and supply chain.* We believe that our profitability, competitiveness and cash flow should be enhanced by our ability to optimize our overall manufacturing operations and supply chain. Through the implementation of lean order-to-cash operations, coupled with selective strategic outsourcing, we are working to derive tangible operating improvements and to improve our overall return on assets.

*Creating a performance-based ethical culture.* We believe that the success of our strategic initiatives will depend on our ability to execute them within the framework of a performance-based culture dedicated to meeting the needs of our customers, stockholders and other constituencies, supported by a corporate culture that is committed to strong principles of business ethics and compliance with law. We recognize the need to align our performance with our organizational capabilities and practices and our strategic vision to enable us to grow at the rate we expect, to drive operating improvements at the rate we expect and to make the progress against targets necessary to create the necessary alignment.

*Developing people and opportunities.* We believe that our success depends heavily on the skill and motivation of our employees and that we must therefore invest in the skills that our employees possess and in those that we need to accomplish our strategic initiatives.

As with any growth strategy, there can be no assurance that we will succeed in accomplishing our strategic initiatives.

***Summary of 2007 Financial Results***

As discussed in greater detail below, we achieved record revenue for 2007 primarily as a result of higher unit volume of sales of new products, the favorable combined effect of price and mix and the favorable effect of foreign currency translation. Our revenue increased by 16.1% to $156.5 million from $134.8 million for 2006 and from $139.1 million in 2005.

For 2007, our operating loss declined by 80.0% to $5.1 million from $25.7 million in 2006. This operating improvement was primarily due to higher gross profit and a higher gross profit margin, lower total operating expenses and a decline in operating expenses as a percentage of revenue. We believe that our overall improved results demonstrate that the strategic actions that we have taken to reshape our organization, transform our product portfolio and re-engineer our business model are taking effect.

Our operating loss for 2007 included $9.6 million of non-cash expenses, which primarily consisted of depreciation and amortization, stock-based compensation and the net change in deferred taxes, in 2007 compared to $12.6 million of non-cash expenses in 2006. Our higher depreciation and amortization expense in 2007 arose from our higher level of capital expenditures in 2006 for our relocation to Rock Hill, South Carolina and our implementation of a new ERP system. We expect that our depreciation and amortization expense for the full year 2008 will be in the range of $5 million to $7 million.

Our gross profit for 2007 increased by 37.2% to $63.5 million from $46.3 million in 2006. Our higher gross profit for 2007 arose primarily from our higher level of revenue, and the improvements in our gross profit margin reflected the more modest increases in cost of sales that we experienced during the year as well as the absence in 2007 of the disruptions and adverse effects from the implementation of our new ERP system, supply chain-staffing issues, the outsourcing of our spare parts and certain of our finished goods supply activities to a logistics management company

and other adverse effects that we incurred primarily during the second and third quarters of 2006.

Our total operating expenses declined by $8.6 million in the second half of 2007 from the previous year, reflecting lower SG&A expenses in that 2007 six-month period and the absence of the restructuring costs that we incurred in 2006 primarily for our relocation to Rock Hill. We believe that our quarterly operating

expenses have begun to resume a more normalized run rate, and accordingly we expect our SG&A expenses for 2008 to fall into the range of $44 million to $52 million.

As we have previously disclosed, during the second and third quarters of 2006, we experienced disruptions and adverse effects from the implementation of our new ERP system, supply chain staffing issues, and the outsourcing of our spare parts and certain of our finished goods supply activities to a logistics management company. We also experienced some growing pains as our initial success in late 2005 and early 2006 in placing new Sinterstation® Pro, Viper™ Pro and 3-D Modeling systems stretched our field engineering resources and presented some stability issues with certain installed systems. The absence in 2007 of the effects that we experienced in 2006 related to these matters in 2007 contributed to our more favorable performance.

We also took several actions to strengthen our liquidity and our balance sheet during 2007, including the following:

In June, we sold 1.25 million shares of our common stock, about 6.1% of the shares then outstanding, in a private placement transaction and received $20.4 million in net proceeds, after deducting costs of issuance, which we intend to use primarily for working capital purposes.

Subsequently, we issued a conditional call for redemption of our outstanding 6% convertible subordinated debentures, all of which were converted into 1.5 million shares of common stock on July 20, 2007.

With our strengthened cash position, on July 20, we voluntarily prepaid our outstanding $8.2 million of revolving credit borrowings with Silicon Valley Bank that were outstanding at December 31, 2006. That credit facility expired in accordance with its terms on October 1, 2007, and we intend to replace it with a new credit facility as conditions in the credit markets and our performance improve and we become able to negotiate acceptable terms for such a facility. In the meantime, we do not expect to have a need for bank borrowings given our strengthened cash position.

As a result of these actions, we reduced our outstanding indebtedness by $23.9 million at December 31, 2007 to $12.2 million from $36.1 million at December 31, 2006. At December 31, 2007, these obligations consisted of $3.3 million of indebtedness outstanding under the industrial development bonds related to our Grand Junction facility and $8.8 million of capitalized lease obligations related to our Rock Hill facility.

Our unrestricted cash and cash equivalents increased by $15.4 million to $29.7 million at December 31, 2007 from $14.3 million at December 31, 2006. At December 31, 2006, our cash and cash equivalents included the effect of $8.2 million of borrowings under the Silicon Valley Bank credit facility. See Liquidity and Capital Resources *Working capital* and *Outstanding debt and capitalized lease obligations.*

As discussed below, our working capital increased by $23.6 million from December 31, 2006 to December 31, 2007. See Liquidity and Capital Resources *Working capital* below.

Among our major components of working capital, accounts receivable, net of allowances, declined by $3.4 million from December 31, 2006 to December 31, 2007 as we continued to work to reduce our days sales outstanding toward their historical levels, and inventory at December 31, 2007 was $6.1 million below its level at December 31, 2006, reflecting early success in our efforts to significantly reduce inventory.

On February 28, 2008, we purchased for $5.3 million certain equipment (principally inventory related) from Tangible Express, LLC that was made available following Tangible Express announcements in late January and early February 2008 that it was closing its doors, no longer providing prototyping services and selling certain equipment. In connection with that transaction, Tangible Express paid to us $0.6 million covering outstanding amounts that it owed

to us.

In connection with these arrangements, we and Tangible Express entered into a Settlement and Release Agreement in which both parties agreed to a general release of all claims against the other, including such

claims as made by Tangible Express against us in a civil action it filed on January 22, 2008 in the United States District Court, District of Utah, Central Division in which Tangible Express sought, among other things, a refund of the purchase costs for equipment and services and related damages.

As discussed below in Item 9A. Controls and Procedures, we continued at December 31, 2007 to have material weaknesses with respect to our internal controls over financial reporting.

**Results of Operations for 2007, 2006 and 2005**

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

**Table 1**

| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| Systems and other products | $ 58,178 | 37.2% | $ 46,463 | 34.5% | $ 55,133 | 39.6% |
| Materials | 61,969 | 39.6 | 52,062 | 38.6 | 44,648 | 32.1 |
| Services | 36,369 | 23.2 | 36,295 | 26.9 | 39,297 | 28.3 |
| Totals | $ 156,516 | 100.0% | $ 134,820 | 100.0% | $ 139,078 | 100.0% |

***Consolidated revenue***

For 2007, our consolidated revenue increased by 16.1% to $156.5 million from $134.8 million in 2006 and $139.1 million in 2005.

The $21.7 million increase in consolidated revenue for 2007 was caused primarily by increased volume in new products, a favorable effect of foreign currency translation, a favorable combined effect of changes in product mix and average selling prices, and the absence of the disruptions experienced in 2006 that are discussed above. Sales of new products and services introduced since the latter part of 2003 increased by $19.2 million to $69.8 million in 2007, representing approximately 44.6% of revenue for the year. New product volume and the combined effect of price and mix were partially offset by lower volume of our core older products in 2007, continuing their downward trend. See *Products and Services* in Item 1 above.

In 2006, consolidated revenue decreased 3.1% from $139.1 million in 2005.

The $4.3 million decrease in consolidated revenue for 2006 was primarily due to the disruptions and challenges discussed above and primarily affected revenue from systems and services. These factors overshadowed changes in new product revenue, mix and average selling prices, which are the factors that normally affect our consolidated revenue. Sales of new products and services introduced since the latter part of 2003 increased by $7.0 million to $49.2 million in 2006, representing approximately 36.5% of revenue for the year, from $42.2 million in 2005.

As used in this Management s Discussion and Analysis, the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, relates 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 systems as the trend toward smaller, more economical systems that has affected our business for the past

several years has continued and the influence of new systems and materials on our operating results has grown. Our reporting systems are not currently configured to produce more quantitative information regarding the effect of price and mix changes on revenue. However, we believe that changes in product mix, rather than changes in average selling prices, are the principal contributor to the price and mix effects that we experienced in 2007, 2006 and 2005.

Systems orders and sales tend to fluctuate on a quarterly basis as a result of a number of factors, including the types of systems ordered by customers, customer acceptance of newly introduced products, the timing of product orders and shipments, global economic conditions and fluctuations in foreign exchange rates. Our customers generally purchase our systems as capital equipment items, and their purchasing decisions may have a long lead-time.

Due to the relatively high list price of certain systems and the overall low unit volume of systems sales in any particular period, the acceleration or delay of orders and shipments of a small number of systems from one period to another can significantly affect revenue reported for our systems sales for the period involved. Revenue reported for systems sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles.

Backlog has historically not been a significant factor in our business, reflecting our relatively short production and delivery lead times. We had approximately $3.1 million of booked orders outstanding at December 31, 2007, primarily for systems, all of which we expect to ship in 2008, compared to approximately $5.0 million of booked orders outstanding at December 31, 2006.

***Revenue by class of product and service***

*2007 compared to 2006*

Table 2 sets forth our change in revenue by class of product and service for 2007 compared to of 2006:

**Table 2**

| | Systems and Other Products | | Materials | | Services | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | | | |
| 2006 Revenue | $ 46,463 | 34.5% | $ 52,062 | 38.6% | $ 36,295 | 26.9% | $ 134,820 | 100% |
| Change in revenue: | | | | | | | | |
| Volume: | | | | | | | | |
| Core products and services | (5,211) | (11.2) | 1,759 | 3.4 | (4,054) | (11.2) | (7,506) | (5.5) |
| New products and services | 10,609 | 22.8 | 5,727 | 11.0 | 2,838 | 7.8 | 19,174 | 14.2 |
| Price/Mix | 4,299 | 9.3 | 168 | 0.3 | | | 4,467 | 3.3 |
| Foreign currency translation | 2,018 | 4.3 | 2,253 | 4.3 | 1,290 | 3.6 | 5,561 | 4.1 |
| Net change | 11,715 | 25.2 | 9,907 | 19.0 | 74 | 0.2 | 21,696 | 16.1 |
| 2007 Revenue | $ 58,178 | 37.2% | $ 61,969 | 39.6% | $ 36,369 | 23.2% | $ 156,516 | 100% |

As discussed above, on a consolidated basis, revenue for 2007 increased by 16.1% to $156.5 million from $134.8 million for 2006. The principal factors leading to this $21.7 million increase in consolidated revenue were higher revenue from systems and materials. Revenue from services was essentially flat in 2007 compared to 2006.

These changes in revenue primarily consisted of increases in unit volume from new products, the combined positive effect of changes in product mix and average selling prices and the favorable effect of foreign currency translation.

The 2007 increase in revenue was partially offset by a decline in revenue from core products and services, consistent with prior trends. The favorable effect of foreign currency translation accounted for 25.6% of the increase in revenue in 2007 while, as shown on Table 3 below, it had a minor effect on consolidated revenue in 2006. The effect of foreign currency translation in each year primarily reflects the effect of changes in the value of the U.S. dollar relative to foreign currencies.

As set forth in Table 1 and Table 2:

Revenue from systems and other products increased by $11.7 million or 25.2% to $58.2 million for 2007 from $46.5 million for 2006 and increased to 37.2% of consolidated revenue in 2007 from 34.5% in 2006.

This increase was derived primarily from a $10.6 million increase in sales of our newer systems, the $4.3 million favorable combined effect of changes in product mix and average selling prices and a $2.0 million positive impact from foreign currency translation. This was partially offset by a $5.2 million decline in legacy system sales.

Revenue from materials continued its double-digit rate of growth and increased by $9.9 million or 19.0% to $62.0 million for 2007 from $52.1 million for 2006. Materials revenue increased to 39.6% of consolidated revenue in 2007 from 38.6% in 2006.

Materials revenue volume from our legacy products and new products increased $1.8 million and $5.7 million, respectively. The combined effect of product mix and average selling prices increased by $0.2 million. Foreign currency translation had a $2.3 million positive impact on materials revenue.

Revenue from services was essentially flat for 2007 compared to 2006 and declined to 23.2% of consolidated revenue in 2007 from 26.9% in 2006 reflecting the effect of the growth in revenue from systems and materials in 2007.

Declines in volume of legacy services in 2007 almost completely offset a $2.8 million increase in new services and the $1.3 million favorable impact of foreign currency translation on service revenue.

*2006 compared to 2005*

As shown in Table 3, the $4.3 million decrease in consolidated revenue in 2006 compared to 2005 reflects the effect of an $11.7 million decline in systems and service revenue in 2006 that was partially offset by $7.4 million of higher revenue from materials sales. Sales of new products and services introduced since the latter part of 2003 increased by $7.4 million to $49.2 million in 2006. Unit volume of sales of legacy products declined by $10.6 million in 2006, more than offsetting the favorable effect of higher sales of new products and services. Unfavorable price/mix effects decreased revenue by $1.5 million, which was partially offset by $0.5 million of favorable foreign currency translation effects.

The components of the $4.3 million decline in revenue by class of product and service for 2006 are shown in Table 9, together with the corresponding percentage of that change compared with 2005 revenue by class of product or service.

**Table 3**

| | Systems and Other Products | | Materials | | Services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | | | |
| 2005 Revenue | $ 55,133 | 39.6% | $ 44,648 | 32.1% | $ 39,297 | 28.3% | $ 139,078 | 100% |
| Volume core products and services | (7,722) | (14.0) | 568 | 1.3 | (3,464) | (8.8) | (10,618) | (7.6) |
| Volume new products and services | 2,709 | 4.9 | 4,267 | 9.6 | 390 | 1.0 | 7,366 | 5.3 |
| Price/Mix | (4,017) | (7.3) | 2,561 | 5.7 | | 0.0 | (1,456) | (1.1) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign currency translation | 360 | 0.7 | 18 | 0.0 | 72 | 0.2 | 450 | 0.3 |
| Net change | (8,670) | (15.7) | $ 7,414 | 16.6 | (3,002) | (7.6) | (4,258) | (3.1) |
| 2006 Revenue | $ 46,463 | 34.5% | $ 52,062 | 38.6% | $ 36,295 | 26.9% | $ 134,820 | 100% |

As set forth in Table 1 and Table 3:

> Revenue from systems and other products decreased by 15.7% to $46.5 million in 2006 from $55.1 million in 2005. Revenue from systems and other products declined to 34.5% of consolidated revenue for 2006 from and 39.6% of revenue in 2005.

The $8.7 million decrease in revenue from systems and other products reflects $7.7 million of unit volume decreases from our core products and $4.0 million of unfavorable price/mix effects that were

only partially offset by $2.7 million of unit volume increases from our newer systems and a favorable $0.4 million foreign currency translation effect.

Revenue from materials increased by 16.6% to $52.1 million for 2006 from $44.6 million for 2005. Revenue from materials increased to 38.6% of consolidated revenue for 2006 from and 32.1% of revenue in 2005.

The $7.4 million increase in revenue from materials was primarily due to $4.3 million of higher unit sales of new products, $0.6 million of higher unit sales of core products and $2.6 million of favorable price and mix effects.

Revenue from services decreased by 7.6% to $36.3 million for 2006 from $39.3 million for 2005. Revenue from services declined to 26.9% of consolidated revenue for 2006 from 28.3% of revenue for 2005.

The decrease in revenue from services was principally due to a $3.5 million decline in support services provided for our legacy systems as customers transitioned to newer systems.

***Revenue by geographic region***

*2007 compared to 2006*

The United States and Europe contributed to our higher level of revenue in 2007. Asia-Pacific revenue declined by less than $0.1 million compared to 2006.

Table 4 sets forth the change in revenue by geographic area for 2007 compared to 2006 (dollars in thousands):

**Table 4**

| | U.S. | | Europe | | Asia-Pacific | | Total | |
|---|---|---|---|---|---|---|---|---|
| 2006 Revenue | $ 58,646 | 43.5% | $ 53,884 | 40.0% | $ 22,290 | 16.5% | $ 134,820 | 100.0% |
| Change in revenue: | | | | | | | | |
| Volume | 4,048 | 6.9 | 8,731 | 16.2 | (1,111) | (5.0) | 11,668 | 8.7 |
| Price/Mix | 2,808 | 4.8 | 584 | 1.1 | 1,075 | 4.8 | 4,467 | 3.3 |
| Foreign currency translation | | | 5,621 | 10.4 | (60) | (0.2) | 5,561 | 4.1 |
| Net change | 6,856 | 11.7 | 14,936 | 27.7 | (96) | (0.4) | 21,696 | 16.1 |
| 2007 Revenue | $ 65,502 | 41.8% | $ 68,820 | 44.0% | $ 22,194 | 14.2% | $ 156,516 | 100.0% |

As shown in Table 4:

Revenue from U.S. operations increased by $6.9 million or 11.7% in 2007 to $65.5 million from $58.6 million in 2006.

This increase was due primarily to higher volume and, to a lesser extent, the favorable combined effect of price and mix and reversed the decline in revenue from U.S. operations that we experienced in 2006 shown in Table 5.

Revenue from operations outside the U.S. increased by $14.8 million or 19.4% to $91.0 million in 2007 from $76.2 million in 2006 and comprised 58.1% of consolidated revenue in 2007 compared to 56.5% in 2006. This increase reflected the effect of the $14.9 million increase in European revenue in 2007, partially offset by a $0.1 million decrease in Asia-Pacific revenue, continuing a trend that we also experienced in 2006.

Foreign currency translation, particularly in our European operations, contributed significantly to our revenue increase in 2007. Excluding the $5.6 million favorable effect of foreign currency translation,

revenue from operations outside the U.S. would have increased 12.2% for 2007 compared to 2006 and would have been 56.7% of consolidated revenue for 2007.

Revenue from European operations increased by $14.9 million or 27.7% to $68.8 million in 2007 from $53.9 million in 2006. This increase was due to higher volume, positive price/mix variances and the $5.6 million favorable effect of foreign currency translation. Foreign currency translation accounted for 37.6% of the European revenue increase in 2007.

Revenue from Asia-Pacific operations decreased by $0.1 million or 0.4% to $22.2 million in 2007 from $22.3 million in 2006. This decrease was caused primarily by a $1.1 million decline in volume and a $0.1 million of unfavorable foreign currency translation that more than offset the $1.1 million favorable effect of price and mix in the Asia-Pacific region and reflected a similar trend that we experienced in 2006.

*2006 compared to 2005*

The components of our $4.3 million decrease in revenue by geographic region for 2006 are shown in Table 5, together with the corresponding percentage of that change compared to the level of revenue for the corresponding period of 2005 for that geographic area.

On a consolidated basis, this $4.3 million decrease resulted from $6.6 million of lower unit volume contributed by the U.S. and the Asia-Pacific region, partially offset by a $3.3 million increase in unit volume in Europe, $1.5 million of unfavorable price/mix effect and the $0.5 million favorable effect of foreign currency translation, reflecting partially offsetting currency translation effects in Europe and the Asia-Pacific regions.

**Table 5**

| | U.S. | | Europe | | Asia-Pacific | | Net Change in Consolidated Revenue | |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | | | |
| 2005 Revenue | $ 65,428 | 47.0% | $ 50,654 | 36.4% | $ 22,996 | 16.6% | $ 139,078 | 100% |
| Volume | (6,364) | (9.8) | 3,299 | 6.5 | (187) | (0.8) | (3,252) | (2.3) |
| Price/Mix | (418) | (0.6) | (1,263) | (2.5) | 225 | 1.0 | (1,456) | (1.1) |
| Foreign currency translation | | | 1,194 | 2.4 | (744) | (3.3) | 450 | 0.3 |
| Net change revenue | (6,782) | (10.4) | 3,230 | 6.4 | (706) | (3.1) | $ (4,258) | (3.1) |
| 2006 Revenue | $ 58,646 | 43.5% | $ 53,884 | 40.0% | $ 22,290 | 16.5% | $ 134,820 | 100% |

As set forth in Table 5:

Revenue from U.S. operations in 2006 decreased by $6.8 million to $58.6 million from $65.4 million in 2005 as a $6.4 million decline in unit volume was combined with a $0.4 million negative combined effect of price

and mix. Revenue from U.S. operations represented 43.5% and 47.0% of consolidated revenue for 2006 and 2005, respectively.

Revenue from operations outside the U.S. increased by $2.5 million or 3.4% to $76.2 million for 2006 from $73.7 million for 2005 and increased to 56.5% of consolidated revenue for 2006 from 53.0% of consolidated revenue for 2005 reflecting the effect of the $3.2 million increase in European revenue in 2006, partially offset by a $0.7 million decrease in Asia-Pacific revenue. Excluding the $0.5 million favorable effect of foreign currency translation, revenue from operations outside the U.S. would have increased 2.8% for 2006 compared to 2005 and would have been 56.4% of consolidated revenue for 2006.

Revenue from European operations increased by $3.2 million or 6.4% to $53.9 million for 2006 from $50.7 million for 2005. This increase was primarily due to $3.3 million of higher unit volume and the

favorable $1.2 million effect of foreign currency translation, partially offset by the $1.3 million unfavorable effect of price and mix. European revenue represented 40.0% and 36.4% of consolidated revenue for 2006 and 2005, respectively.

Revenue from Asia-Pacific operations decreased by $0.7 million to $22.3 million in 2006 compared to $23.0 million 2005. This decrease in revenue was due primarily to a $0.7 million unfavorable effect of foreign currency translation as the unfavorable effect of lower unit volume and the favorable effect of price and mix substantially offset each other. Asia-Pacific revenue represented 16.5% and 16.6% of consolidated revenue for each of 2006 and 2005, respectively.

*Costs and margins*

Our gross profit and gross profit margin increased in 2007 after having declined in 2006 compared with 2005.

Table 6 sets forth gross profit, both in dollars and as a percentage of revenue, for 2007 compared to 2006 and 2005 (dollars in thousands):

**Table 6**

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| | Gross Profit | % Revenue | Gross Profit | % Revenue | Gross Profit | % Revenue |
| | (Dollars in thousands) | | | | | |
| Products | $ 54,514 | 45.4% | $ 39,296 | 39.9% | $ 49,449 | 49.6% |
| Services | 8,946 | 24.6 | 6,961 | 19.2 | 12,713 | 32.4 |
| Total | $ 63,460 | 40.5% | $ 46,257 | 34.3% | $ 62,162 | 44.7% |

On a consolidated basis, gross profit for 2007 increased by $17.2 million to $63.5 million from $46.3 million for 2006. Consolidated gross profit margin in 2007 increased by 6.2 percentage points to 40.5% of revenue from 34.3% of revenue for the 2006 period. In addition to our higher revenue, the increase in our gross profit margin in 2007 reflected the relatively lower increase in cost of sales, the absence in 2007 of the 2006 business disruptions and challenges discussed above. Foreign currency transactions did not have a material effect on cost of sales in 2007.

Gross profit decreased by 25.6% to $46.3 million in 2006 from $62.2 million in 2005. Our gross profit margin decreased by 10.4 percentage points to 34.3% of consolidated revenue in 2006 compared to 2005.

The $15.9 million decrease in gross profit in 2006, and the related decline in gross profit margin, were due primarily to the combined effects of:

our lower revenue;

our ERP system, supply chain and logistics disruptions that we encountered primarily in the second and third quarters of 2006; and

special accommodations that we extended to certain customers whose orders for our products or services or for repairs to systems were delayed by the disruptions we encountered with our ERP system and our logistics activities or who encountered stability issues with their equipment installations that we were not able to quickly address as a result of resource constraints on our service organization.

The decline in gross profit margin also included a $0.4 million difference in inventory value that was included in cost of sales for 2006 and the recording of credit memoranda for the benefit of customers for product return and pricing issues in 2006.

Cost of sales, which is the principal influence on our gross profit, increased by 5.1% to $93.1 million in 2007, a percentage increase substantially less than the 2007 rate of increase in revenue. As a percentage of consolidated revenue, cost of sales decreased to 59.5% of revenue in 2007 from 65.7% in 2006 and 55.3% in 2005. Cost of sales increased by 15.1% to $88.6 million in 2006 from $76.9 million in 2005.

The increase in cost of sales in 2007 was due primarily to our higher volume and the absence in 2007 of the 2006 business disruptions and challenges described above. The increase in cost of sales in 2006 was due primarily to those disruptions and challenges mentioned above.

The $6.4 million increase in cost of sales for products in 2007 was primarily the result of the increase in volume. The $1.9 million decrease in cost of sales for services in 2007 primarily resulted from the absence of disruptions and challenges that occurred in 2006 as discussed above.

The $8.9 million increase in cost of sales for products in 2006 included $3.6 million of inventory reductions for shrinkage, obsolescence and scrap, $2.1 million of higher manufacturing costs, and $1.3 million of unfavorable purchase price variances, partially offset by $0.7 million of favorable foreign exchange transaction gains and $0.5 million of lower license amortization expense. The $2.8 million increase in cost of sales for services in 2006 resulted from increased installation costs of newer systems and the disruptions and special accommodations discussed above.

Primarily reflecting the factors discussed above, gross profit margin for products:

- increased by 5.5 percentage points to 45.4% of consolidated product revenue in 2007 from 39.9% of 2006 consolidated product revenue; and

- for 2006, decreased to 39.9% of consolidated product revenue from 49.6% of revenue in 2005.

While revenue from services was essentially flat in 2007 compared to 2006, gross profit margin on services increased to 24.6% of consolidated service revenue for 2007 from 19.2% of 2006 consolidated service revenue after having decreased in 2006 from 32.4% of 2005 consolidated service revenue. The improvement in service margins in 2007 was primarily due to the absence of the disruptions and challenges that occurred in 2006 as discussed above. Service margins in 2006 were adversely affected by disruptions in product availability, reduced sales volume of systems and increased installation costs.

*Operating expenses*

As shown in Table 7, total operating expenses decreased by $3.4 million or 4.7% to $68.6 million for 2007 from $71.9 million for 2006 after having increased from $53.7 million or 38.6% of revenue in 2005. The decrease in 2007 was primarily due to:

- the absence in 2007 of the $6.6 million of restructuring and related costs that we incurred in 2006 primarily in connection with our relocation to Rock Hill;

that were partially offset by

- $3.0 million of higher selling, general and administrative costs; and

- $0.3 million of higher research and development costs.

These higher annual research and development expenses reflected our continuing high level of work on selected new product developments, including our new V-Flash™ Desktop 3-D Modeler.

As one of our business objectives, we are working to manage our operating expenses to be in the range of 30% to 35% of revenue as our business grows. However, there can be no assurance that we will achieve this objective. In 2005, our

operating expenses declined to approach the top of this range, but our SG&A expenses in particular rose disproportionately in 2006 due to the business disruptions and challenges that we experienced in 2006 following the start-up of our new ERP system and costs associated with the restatement of our financial statements and the remediation of previously disclosed material weaknesses, and these expenses continued through part of 2007.

We believe that our quarterly operating expenses have begun to resume a more normalized run-rate, and we expect our SG&A expenses in 2008 to fall into the range of $44 million to $52 million. We began to see a trend that supports this expectation develop in 2007 as SG&A expenses averaged $14.9 million in each of the first two quarters of 2007 and averaged $12.2 million in the final two quarters of 2007.

**Table 7**

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| | Amount | % Revenue | Amount | % Revenue | Amount | % Revenue |
| | (Dollars in thousands) | | | | | |
| SG&A | $ 54,159 | 34.6% | $ 51,204 | 38.0% | $ 40,344 | 29.0% |
| R&D | 14,430 | 9.2 | 14,098 | 10.5 | 12,176 | 8.7 |
| Restructuring and related costs | | | 6,646 | 4.9 | 1,227 | 0.9 |
| Total | $ 68,589 | 43.8% | $ 71,948 | 53.4% | $ 53,747 | 38.6% |

*Selling, general, and administrative costs*

Selling, general and administrative expenses increased by $3.0 million or 5.8% to $54.2 million in 2007 from $51.2 million in 2006 and increased by $10.9 million in 2006 compared to $40.3 million in 2005. As a percentage of revenue, selling, general and administrative expenses were 34.6%, 38.0% and 29.0% of consolidated revenue in 2007, 2006 and 2005, respectively.

The $3.0 million increase in selling, general and administrative expenses in 2007 compared to 2006 resulted from $8.8 million of higher SG&A costs that we incurred on a period-to-period basis through June 30, 2007, which were partially offset by a $5.8 million period-to-period decline in SG&A expenses in the third and fourth quarters of 2007. As noted above, we believe that our operating expenses began to resume a more normalized run-rate during the second half of 2007.

The $3.0 million increase in selling, general and administrative expenses in 2007 was primarily due to:

- $2.8 million of higher expenses related to sales commissions and bonuses;
- $1.4 million of higher audit fees;
- $0.8 million of higher severance unrelated to our relocation; and
- $0.9 million of higher depreciation expense related to the significant capital expenditures that we made in 2006 related to our relocation to Rock Hill.

which were partially offset by:

- $1.5 million of lower bad debt expenses;
- $1.2 million of lower travel expenses; and
- $1.0 million of lower contract labor expense.
- $0.5 million reduction in employee benefits related to a change in our vacation policy

The $10.9 million increase in selling, general and administrative expenses in 2006 was primarily due to:

$5.7 million of higher consulting expenses that were incurred primarily in connection with our ERP implementation and the restatement of our financial statements;

$1.5 million of higher bad debt expense;

$1.3 million of higher stock-based compensation expense arising from our adoption on January 1, 2006 of SFAS No. 123(R), Share-Based Payment, amounting to $0.7 million and an additional $0.5 million of fourth quarter 2006 expense related to prior years option grants;

$1.2 million of higher travel expenses related primarily to field service; and

$0.6 million of higher depreciation and amortization expense.

*Research and development expenses.*

Research and development expenses increased by 2.4% to $14.4 million in 2007 and by 15.8% to $14.1 million in 2006 from $12.2 million in 2005. In 2007 and 2006, these expenses included, among other projects, costs associated with the development of our V-Flash[tm] 3-D Desktop Modeler and a materials research and development project that we entered into with Symyx Corporation. In addition to the R&D expenses that we incurred with respect to our V-Flash[tm] modeler, we had capitalized $1.7 million of assets at December 31, 2007 related to this product, consisting of $0.6 million of capitalized software, $0.4 million of capitalized equipment and $0.7 million of inventory. We continue to work on a variety of new product developments, and we expect to incur approximately $13 million to $14 million of research and development expenses for 2008.

*Restructuring and related costs.*

Restructuring and related costs in 2006 and 2005 primarily included personnel, relocation and recruiting costs incurred in connection with our relocation to Rock Hill, South Carolina. These costs amounted to $6.6 million in 2006 and $1.2 million in 2005. At December 31, 2006 and 2005, we maintained less than $0.1 million and $0.4 million in restructuring reserves, respectively, for unexpended restructuring costs. We maintained no such reserves at December 31, 2007. See Note 10 to the Consolidated Financial Statements.

These restructuring and relocation costs do not include the capitalized lease value of the lease for the Rock Hill facility at December 31, 2007 or 2006, nor do they include the $3.7 million of capitalized tenant improvement and related costs that we incurred in 2006 to complete the Rock Hill facility. See Liquidity and Capital Resources below.

Our severance and other restructuring costs in 2005 related primarily to costs incurred in the fourth quarter of 2005 in connection with our relocation to Rock Hill. These costs included $0.7 million of personnel, relocation and recruiting costs and approximately $0.5 million of non-cash charges associated with accelerated amortization and asset impairments.

*Income (loss) from operations*

As a result of our higher revenue and gross profit and our lower level of total operating expenses in 2007 that are discussed above, our operating loss declined by 80.0% to $5.1 million in 2007 from $25.7 million in 2006. We reported $8.4 million of operating income for 2005. The 2007 reduction in operating loss included $7.0 million of operating losses incurred in the first six months of 2007 that were partially offset by $1.9 million of operating income in the last six months of 2007 as our operating results continued to improve.

On a geographic basis:

Our operating loss from our U.S. operations declined to $9.8 million in 2007 from $28.9 million in 2006. We reported $3.2 million of operating income in the U.S. in 2005.

Our operating income from operations in Europe declined to $1.4 million in 2007 from $3.2 million in 2006. We reported $3.4 million of operating income in our European operations in 2005.

Operating income from our Asia-Pacific operations increased to $2.1 million in 2007 from $1.8 million in 2006. We reported $2.9 million of operating income in our Asia-Pacific operations in 2005.

The following table sets forth operating income (loss) from operations by geographic area for 2007, 2006 and 2005 (dollars in thousands):

**Table 8**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Income (loss) from operations: | | | |
| United States | $ (9,924) | $ (28,888) | $ 3,211 |
| Germany | 430 | 1,608 | (1,104) |
| Other Europe | 1,110 | 1,621 | 4,517 |
| Asia-Pacific | 2,127 | 1,770 | 2,900 |
| Subtotal | (6,257) | (23,889) | 9,524 |
| Inter-segment elimination | 1,128 | (1,802) | (1,109) |
| Total | $ (5,129) | $ (25,691) | $ 8,415 |

With respect to the U.S., in 2007 and 2006, the changes in operating loss by geographic area reflected the same factors relating to our consolidated operating loss that are discussed above. As most of our operations outside of the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income (loss) in our operations outside of the U.S. in each of 2007, 2006 and 2005 resulted primarily from changes in transfer pricing and in foreign currency translation.

Depreciation and amortization increased to $7.0 million in 2007 and $6.5 million in 2006 from $5.9 million in 2005. The increase in depreciation and amortization in 2007 and 2006 was primarily due to the investments that we made in our facilities, infrastructure, the opening of our rapid manufacturing center and product development capabilities in earlier periods. The increase in depreciation and amortization in 2006 was primarily the result of increased depreciation associated with additions to fixed assets, primarily resulting from our new facility in Rock Hill.

*Interest and other expense, net*

Interest and other expense, net, which consists primarily of interest income and interest expense, amounted to $1.1 million of net expense for 2007, $1.4 million of net expense for 2006 and $0.7 million of net expense for 2005. The 2007 decrease included interest expense on our bank borrowings and 6% convertible subordinated debentures while they were outstanding during 2007, which was only partially offset by interest income during 2007. The increase in 2006 compared with 2005 resulted from lower gains on the sale of fixed assets and higher other expenses arising from miscellaneous items.

We do not currently expect to incur additional borrowings during 2008 given our improved cash position. With the repayment of our bank borrowings and the conversion of our 6% convertible subordinated debentures during the third quarter of 2007, our quarterly interest expense was less than the income we recorded on our invested cash and cash equivalents during the remainder of 2007. We expect that interest and other expense, net will not be a material factor in our operating results during 2008.

*Provisions for (benefit from) income taxes*

We recorded $0.5 million and $2.2 million provisions for income taxes in 2007 and 2006, respectively, and a $1.7 million benefit from income taxes in 2005.

Our $0.5 million provision for income taxes in 2007 primarily reflects $0.9 million of tax expense associated with income taxes in foreign jurisdictions partially offset by a $0.4 million reduction at December 31, 2007 in the valuation allowance maintained with respect to our deferred tax assets for various foreign subsidiaries. See Note 20 of the Consolidated Financial Statements.

Our $2.2 million provision for income taxes in 2006 primarily reflects tax expense associated with the recording of a net $1.8 million increase in the valuation allowance maintained against our deferred income tax

assets in 2006. This adjustment in our valuation allowance consisted of a $2.5 million increase in the valuation allowance recorded against our U.S. deferred income tax assets, partially offset by a $0.7 million reduction at December 31, 2006 in the valuation allowance maintained for various foreign subsidiaries. See Note 20 to the Consolidated Financial Statements. The remaining $0.4 million provision for tax expense in 2006 arose primarily from income taxes attributable to foreign jurisdictions.

A substantial portion of our deferred income tax assets results from available net operating loss carryforwards in the jurisdictions in which we operate. Certain of these net operating loss carryforwards for U.S. state income tax purposes began to expire in 2006, and certain of them will begin to expire in later years for foreign and U.S. Federal income tax purposes. See Note 20 to the Consolidated Financial Statements. While we were profitable in 2005, our level of U.S. losses for the years ended December 31, 2007 and 2006 may be viewed as evidence that we will not be able to utilize all of these net operating loss carryforwards before they expire.

Our 2005 tax benefit arose from the $2.5 million reduction in the valuation allowance maintained with respect to our U.S. deferred income tax assets discussed above that more than offset a $0.8 million provision for income taxes in 2005, arising primarily from foreign taxes. This reduction in the valuation allowance maintained with respect to our U.S. deferred income tax assets in 2005 was subsequently reversed in 2006 as described above.

*Net income(loss); net income (loss) available to common stockholders*

Our net loss declined by 77.0% in 2007 to $6.7 million from $29.3 million for 2006. We recorded $9.4 million of net income in 2005.

The principal reasons for our lower net loss in 2007 were:

- The $20.6 million reduction in our operating loss;
- The $1.7 million reduction in our income tax provisions discussed above, which included in 2006 a $1.8 million net increase in our valuation allowance arising from the reversal in 2006 of the $2.5 million deferred tax asset that we recorded at December 31, 2005 discussed above; and
- The $0.3 million reduction of interest and other expense, net.

The principal reasons for our $29.3 million net loss for 2006 compared to our $9.4 million of net income for 2005 were:

- A $34.1 million increase in operating loss, which more than offset our 2006 operating income;
- A $3.9 million increase in our provisions for income taxes, which included the reversal of the $2.5 million deferred tax asset that we recorded at December 31, 2005 discussed above; and
- A $0.7 million increase in interest and other expense, net.

Net income (loss) available to common stockholders differs from net income (loss) discussed above in that it includes the effect of preferred stock dividends that we paid on our Series B Convertible Preferred Stock while it was outstanding.

Net loss available to common stockholders for 2007 was $6.7 million. There was no difference between net loss and net loss available to the common stockholders in 2007 since we had no preferred stock outstanding and paid no

preferred stock dividends during that period. On a per share basis, our net loss per share available to the common stockholders declined to $0.33 per share in 2007 on both a basic and fully diluted basis from $1.77 per share in 2006. See Note 17 to the Consolidated Financial Statements.

In 2006, net loss available to common stockholders was $30.7 million. This included $1.4 million of preferred stock dividends, of which $0.9 million was non-cash cost associated with the write-off of the initial offering costs that remained unaccreted and dividends accrued to June 8, 2006, related to our Series B Convertible Preferred Stock, all of which was converted into common stock as of that date.

Net income available to common stockholders for 2005 was $7.7 million after deducting accrued preferred stock dividends and accretion of preferred stock issuance costs with respect to our then outstanding Series B Convertible Preferred Stock. On a per share basis, we recorded $0.52 of basic income per share available to the common stockholders in 2005. After taking into account the dilutive effect of outstanding stock options, diluted income per share available to the common stockholders was $0.48 in 2005.

The dilutive effects of our outstanding convertible securities were excluded from the calculation of diluted income per share in 2007 and 2006 as they would have been anti-dilutive, that is, they would have increased net income per share or reduced net loss per share. See Note 17 to the Consolidated Financial Statements.

**Liquidity and Capital Resources**

During 2007, our primary sources of liquidity were the Silicon Valley Bank credit facility, discussed below, under which we borrowed $8.2 million in 2006 that we repaid on July 20, 2007 and the $20.4 million in net proceeds that we received on June 19, 2007 from the private placement of 1.25 million shares of common stock. We also generated $2.6 million of cash from operating activities in 2007. See *Cash flow* and *Outstanding debt and capitalized lease obligations* below.