3D SYSTEMS CORP
Form 10-K/A
August 02, 2007

Table of Contents

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

FORM 10-K/A

(Amendment No. 1)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

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 x

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 x

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 x 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. x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant on June 30, 2006 was $190.0 million. 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 March 20, 2007 was 19,152,169.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant s definitive proxy statement for our 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Explanatory Note

We are filing this Form 10-K/A in order to amend our Annual Report on Form 10-K for the year ended December 31, 2006, as originally filed with the Securities and Exchange Commission on April 30, 2007. The purpose of this amendment is to correct the inadvertent typographical, clerical and rounding errors described below. We believe that those errors, when considered either individually or in the aggregate, do not result in a material change to the disclosures made in the originally filed Form 10-K. This amendment does not otherwise update any disclosures made in the Form 10-K as originally filed for any subsequent period.

The remainder of this Explanatory Note describes the changes in the disclosures in this Form 10-K/A from those made in the originally filed Form 10-K. For convenience of reference, we are re-filing our Form 10-K in its entirety by means of this Form 10-K/A with the exception of certain exhibits that were originally filed with the Form 10-K, which exhibits are incorporated by reference to the Form 10-K as originally filed.

The principal changes made in this Form 10-K/A consist of the following:

1. Severance and Restructuring Costs, page 6: We changed the number $6.7 million to $6.6 million to conform to the 2006 number for such costs that appears on the Statement of Operations for the year ended December 31, 2006.

2. In the first paragraph of the discussion of Global Operations on page 14, we changed the number 58.5% to 58.4% to correct a rounding error.

3. In Item 6, Selected Financial Data, on page 24:

> We aggregated and presented the current portion of long-term debt and capitalized lease obligations from Consolidated Financial Statements to $11,913;
>
> We corrected the following typographical errors in Consolidated Cash Flow Data:
>
> > We changed net cash used in operating activities from ($8,330) to ($8,551) and
> >
> > We changed net cash provided by financing activities from $9,935 to $9,964;

in order to conform those numbers with the Statement of Cash Flows for the year ended December 31, 2006; and

> In the reconciliation of net cash provided by operating activities in EBIT and EBITDA that appears in Note 7 to the Selected Financial Data on page 27:
>
> > We similarly changed net cash used in operating activities for the year ended December 31, 2006 from ($8,330) to ($8,551); and
> >
> > We modified the changes in operating assets and liabilities, net, for the year ended December 31, 2006 from ($7,405) to ($7,184) in order to conform that number to the Consolidated Financial Statements for the year ended December 31, 2006.

4. In Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, we made the following changes:

We made three reclassifications in Table 4, modifying changes to operating accounts from $560 to $563, net cash provided by operating activities from $45 to $48 and cash provided by financing activities from $(208) to $(211) in order to conform the presentation in that table to the restated Statement of Cash Flows for the year ended December 31, 2005.

We made two reclassifications in Table 6, changing other liabilities and total other liabilities from $(8) to $(7) and stockholders equity from $2,593 to $2,592 to correct rounding errors.

We modified Table 9 to reclassify the effects of changes in core volume and price and mix of our products and services for the year ended December 31, 2006 compared to the year ended December 31, 2005, and we modified the associated narrative disclosures. The effect of these changes was to increase in 2006 the effect of the decline in unit volume of core products and to

Table of Contents

reduce the effect of price and mix. These changes did not affect the trends disclosed in the originally filed Form 10-K.

We modified Table 12 to conform the geographical changes in volume and price and mix of our products and services for the year ended December 31, 2006 compared to the year ended December 31, 2005 to the totals shown in Table 9, and we modified the associated narrative disclosures. The effect of these changes was to decrease in 2006 the effect of the decline in unit volume and to increase the effect of price and mix. These changes did not affect the trends disclosed in the originally filed Form 10-K.

5. In the fourth bullet below Table 12 and the third bullet below Table 13 in Management s Discussion and Analysis of Financial Condition and Results of Operations, we changed the percentage of revenue contributed by the Asia-Pacific region in 2005 from 16.5% to 16.6% due to rounding.

6. In the discussion of operating expenses in Management s Discussion and Analysis of Financial Condition and Results of Operations:

We corrected a typographical error in the increase in selling, general and administrative expenses in 2006, changing that number from $10.3 million to $10.9 million, to reflect the amount shown in the Statement of Operations for the year ended December 31, 2006.

We corrected a typographical error in the percentage of severance and restructuring costs in operating expenses from 31% to 30%.

We also changed the disclosure relating to the effect of the change in severance and restructuring costs in 2005, noting that they increased by $0.6 million over 2004, rather than noting that $1.2 million of those costs in 2005 were associated with our relocation to Rock Hill, South Carolina.

We changed the percentage of revenue arising from operating expenses in 2004 from 40.3% to 40.2% as a result of rounding, and in Table 15, we reduced the percentage of research and development expense in 2004 from 8.4% to 8.3% for the same reason.

7. In the discussion of, income (loss) from operations in Management s Discussion and Analysis of Financial Condition and Results of Operations, we changed the loss from operations attributable to U.S. operations in 2006 from $28.7 million to $28.9 million to correct a typographical error and to conform that number to the number shown in Note 22 to the Consolidated Financial Statements.

8. In the discussion of working capital in Management s Discussion and Analysis of Financial Condition and Results of Operations:

In the paragraph on page 51 that discusses Table 18, we changed the amount of cash used in operating activities from $8.3 million to $8.6 million, the amount of cash used in investing activities from $11.1 million to $11.0 million and the negative effect of changes in exchange rates on cash from $0.6 million to $0.4 million, to conform those numbers to those shown on the Statement of Cash Flows for the year ended December 31, 2006.

In the paragraph on page 52 that discusses items of working capital relating to the Grand Junction facility, we changed the second to last sentence of that paragraph to state that the net favorable impact of the reclassification of Grand Junction facility was $1.3 million rather than $1.5 million, correcting a typographical error.

In the next paragraph, we changed the percentage of accounts receivable more than 90 days outstanding from 6.9% to 9.9% as of December 31, 2006 and from 5.1% to 5.0% as of December 31, 2005, correcting typographical errors in those numbers.

9. In the discussion of cash flow in Management s Discussion and Analysis of Financial Condition and Results of Operations:

We modified Table 18 for the years ended December 31, 2006 and 2005 to, with respect to 2006 and 2005, modified cash used in operating activities and cash provided by financing activities to conform them to the Statements of Cash Flows for those years and to, with respect to 2006,

Table of Contents

conform the effect of exchange rate changes on cash to the Statement of Cash Flows for that year.

We modified the associated narrative disclosures related to cash flow to reflect the impact of these changes. We believe that none of these changes modified the disclosure contained in the originally file Form 10-K in any material respect and that none of them affected the trends in cash flow disclosed in the originally filed Form 10-K.

10. In the discussion of commitments and contingencies on page 59 of Management s Discussion and Analysis of Financial Condition and Results of Operations, we changed the rental expense under non-cancelable operating leases for 2004 from $2.3 million to $2.9 million to correct a typographical error.

11. In the discussion of stockholders equity on page 59 of Management s Discussion and Analysis of Financial Condition and Results of Operations, we changed the amount of the 2006 loss appearing in the second sentence from $28.7 million to $29.3 million to correct a typographical error and to conform that number to the Statement of Operations for the year ended December 31, 2006.

12. In the discussion of Quantitative and Qualitative Disclosures About Market Risk in Management s Discussion and Analysis of Financial Condition and Results of Operations:

In the discussion of realized gains and losses relating to foreign currency items that appears on page 61, we changed the $0.4 million loss for the year ended December 31, 2006 included in the originally filed Form 10-K to a $0.1 million gain and changed the $0.5 million loss for the year ended December 31, 2005 included in the originally filed Form 10-K to a $0.9 million loss to correct a typographical error and to conform those numbers to the numbers included in the Statements of Operations for those years.

In the discussion of commodity prices that appears on page 62, we modified the hypothetical effect of a change in commodity prices on cost of sales from $1.9 million to $2.2 million at December 31, 2006 to correct a typographical error.

In the discussion of interest rates that appears on page 79, we changed the fair value of our total debt and preferred stock from $53.7 million to $44.2 million at December 31, 2006 and from $105.1 million to $94.5 million at December 31 2005 Additionally, the decrease in estimated fair value of fixed-rate instruments for 2006 was reduced from $4.9 million to $3.7 million to correct a typographical errors and conform to financial information included in Note 12 of the Consolidated Financial Statements.

Corresponding changes were made in Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

13. We also made changes to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2006 as originally filed. These changes are described below.

14. In the Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004 on page F-10, we made the following reclassifications within the statements of cash flows:

Changes in Operating Accounts for the year ended December 31, 2006:

Accounts receivable changed from $(1,745) to $(1,937).

Accrued liabilities changed from $(75) to $(104).

The net change in cash provided by (used in) operating activities changed from $(8,330) to $(8,551). Changes provided by financing activities: Stock options changed from 2,713 to 2,775.

Net Cash provided by financing activities for the year ended December 31, 2006 changed from $9,935 to $9,964 as a result of a reduction in cash provided by stock options and related items.

The net effect of exchange rate changes on cash for the year ended December 31, 2006 increased from $(586) to $(394).

Table of Contents

Changes in Operating Accounts for the year ended December 31, 2005 were as follows:

Stock-based compensation changed from $1,083 to $941.

Other liabilities changed from $(500) to $(375).

The net change in cash provided by (used in) operating activities changed from $(5,743) to $(5,760).

Changes in cash provided by financing activities for the year ended December 31, 2005 were as follows:

Cash provided by stock options and related items changed from $8,118 to $8,135.

Net cash provided by financing activities changed from $5,489 to $5,506.

15. In Note 3 to the Consolidated Financial Statements, the following reclassifications were made to the restated Consolidated Balance Sheet as of December 31, 2004 which appears on page F-24 as a result of rounding:

The adjustment for other liabilities increased from $(8) to $(7) and the corresponding adjustment for total liabilities increased from $(310) to $(309). This resulted in a $1 increase in restated other liabilities from $2,848 to $2,849. This resulted in a reduction of total liabilities from $64,175 to $64,176.

The adjustment for accumulated other comprehensive income changed from $2,293 to $2,292, resulting in a $1 reduction of restated accumulated other comprehensive income from $2,478 to $2,477.

This resulted in a decrease in the net adjustment of total stockholders equity from $2,593 to $2,592 and a decrease in total stockholder s equity from $55,657 to $55,656.

16. In Note 3 to the Consolidated Financial Statements, the following reclassifications were made to the restated Consolidated Statement of Cash Flows for the year ended December 31, 2005, which appears on page F-27:

Net cash used in operating activities as previously reported changed from $(5,791) to $(5,808) as a result of the following reclassifications:

Stock-based compensation was reduced from $1,083 to $941.

Other Assets as previously reported were reduced from $69 to $22.

Other liabilities as previously reported changed from $(543) to $(371).

This net change was offset by a reclassified $17 net increase in net cash provided by financing activities as previously reported, which increased from $5,700 to $5,717 reflecting an increase from $8,118 to $8,135 in cash provided by stock options and related items.

Cash and cash equivalents, at the beginning of the year as previously reported was changed from $24,276 to $26,276 to correct a typographical error in this table as originally presented.

The following reclassifications were made in the restatement adjustments in the Statement of Cash Flows for the year ended December 31, 2005:

The restatement adjustment for other assets was changed from $(137) to $(90).

The restatement adjustment for other liabilities was changed from $43 to $(4).

As a result of these changes and as reflected on page F-27, on a restated basis, net cash used in operating activities for the year ended December 31, 2005 was $(5,760) compared to $(5,808) as originally reported and net cash provided by financing activities was $5,506 as restated compared to $5,717 as originally reported.

Table of Contents

17. In Note 7(c) to the Consolidated Financial Statements that appears on page F-30, we have made the following changes:

To correct a rounding error, we have increased net intangible assets at December 31, 2006 from $817 to $818.

We have added additional disclosure to disclose $715 of amortization expense for the year ended December 31, 2004.

18. We deleted the cross reference to Note 16 at the end of Note 9 to the Consolidated Financial Statements.

19. In Note 10 to the Consolidated Financial Statements appearing on page F-32, we:

Modified the line item references to pension obligations to refer to defined benefit pension obligations;

To correct a typographical error, we increased the amount of accrued other liabilities included in accrued liabilities at December 31, 2006 by $2 from $30 to $32; and

Under the heading other liabilities, to correct typographical errors for the year ended December 31, 2005, we reclassified $3 from pension obligations to other long-term liabilities.

20. In Note 11 to the Consolidated Financial Statements on page F-32, we modified the disclosure with respect to the lease for our Rock Hill facility to note that our 15-year lease is subject to two five-year renewal terms

21. In Note 13 to the Consolidated Financial Statements appearing on page F-36, in order to correct a typographical error, we changed the amount of the foreign exchange contracts outstanding under our Silicon Valley Bank credit facility at December 31, 2005 from $1,700 to $1,659.

22. In Note 21 to the Consolidated Financial Statements appearing on page F-48, in order to correct a typographical error, we changed the amount of the loss carry-forwards that were outstanding for U.S. state income tax purposes from $56,067 to $57,067.

23. In Note 22 to Consolidated Financial Statements appearing on page F-50, to correct typographical errors, we made the following changes:

Depreciation and amortization expense in North America were decreased from $5,670 to $5,668 for the year ended December 31, 2006 and from $4,709 to $4,706 for the year ended December 31, 2005. Total depreciation and amortization expense for those years was correspondingly reduced.

Capital expenditures in North America were decreased from $18,199 to $18,152 for the year ended December 31, 2006, with a corresponding adjustment for total capital expenditures for that year.

24. In Schedule II, Valuation and Qualifying Accounts, appearing on page F-56**,** to correct typographical errors, the deferred income tax allowance account additions charged to expense for the year ended December 31, 2006 were increased from $17,677 to $17,890, and the balance for this account at the end of 2006 was accordingly changed from $38,904 to $39,117.

3D SYSTEMS CORPORATION
Annual Report on Form 10-K for the
Year Ended December 31, 2006

Table of Contents

Table of Contents

PART I

Item 1. Business

General

3D Systems Corporation, operating through subsidiaries in the United States, Europe and the Asia-Pacific region, designs, develops, manufactures, markets and services rapid 3-D printing, 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 are used 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, thus transforming the way they design, develop and manufacture their new products. We are focusing our product development efforts on expanding our portfolio of 3-D printing 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. During the past few years, we have worked to rejuvenate and reshape our core business while developing new products that address our growing 3-D printing 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 tooling 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 printing applications, our systems are used to produce three-dimensional shapes, primarily for visualizing and communicating concepts, and design applications as well as for a variety of other applications, including supply-chain management, modeling, architecture, art, surgical modeling and entertainment.

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

Our products offer our customers an integrated systems solution consisting of equipment and related software, consumable materials and customer service. Our extensive solutions portfolio is based on several 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.

Significant 2006 Developments

During 2006, we engaged in several major projects that we expect to create long-term benefits. These include:

The implementation of our new enterprise resource planning (ERP) system;

The outsourcing of our spare parts and certain of our finished goods supply activities to a third-party logistics management company in the U.S. and Europe;

Table of Contents

The relocation of our corporate headquarters and principal research and development facilities to Rock Hill, South Carolina;

The establishment of an internal, centralized shared-service center in Europe, which commenced operation in conjunction with the implementation of our ERP system in Europe in the second quarter of 2006; and

The completion of the transfer of our InVision®materials production line to our Marly, Switzerland facility, which commenced operations in the first quarter of 2006.

Beginning in the second quarter of 2006, we experienced business disruptions and adverse business and financial 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 the logistics management company mentioned above. These matters adversely affected our revenue, operating results, cash flow and working capital management beginning in the second quarter of 2006, and these adverse effects continued to a lesser extent to affect our operations and financial performance in the remainder of 2006. These effects are discussed in greater detail below.

As we prepared our financial statements for the period ended September 30, 2006, we discovered errors in our financial statements for several prior periods. These errors ultimately led to the restatement of our financial statements for 2004 and 2005 and for the first two quarters of 2006 as discussed below. See Note 3 to the Consolidated Financial Statements.

As a result of the disruptions resulting from the implementation of our ERP system, our supply chain staffing issues and our outsourcing activities and the discovery of these errors in our financial statements, we determined and disclosed in connection with the preparation of our Quarterly Reports on Form 10-Q for the second and third quarters of 2006 that deficiencies exist relating to the design and implementation of our internal controls with respect to the following matters:

The timeliness and accuracy of our period-end financial statement closing process and our procedures for reconciling and compiling financial records;

Our processing and safeguarding of inventory;

Our invoicing and processing of accounts receivable and applying customer payments; and

The timeliness and accuracy of the monitoring of our accounting function and oversight of financial controls.

In the course of conducting our review of the effectiveness of our internal control over financial reporting at December 31, 2006, we identified the following additional deficiencies that we consider, either individually or in the aggregate with the deficiencies discussed above, to constitute material weaknesses:

A weakness arising from the need to replace certain of our foreign financial controllers;

A weakness relating to the use of spreadsheets in the preparation of our Consolidated Financial Statements;

A weakness relating to the process for the timely calculation and documentation of certain foreign income tax provisions and deferred income tax assets; and

A weakness related to control of access to the databases in our new ERP system.

We believe that the foregoing deficiencies that we have identified constitute individually or in the aggregate material weaknesses in our internal control over financial reporting. See Part II, Item 9A, Controls and Procedures below.

After having identified the errors referred to above that led to the restatement of our financial statements and the control deficiencies that contributed to them, we performed additional detailed transaction reviews and control activities in connection with reconciling and compiling our financial records. We are continuing our work to identify and remedy all sources of the problems with our internal controls, and we believe that we

Table of Contents

have identified the primary causes of and have taken appropriate remedial actions for these problems. As a result of our efforts, we believe that the financial statements included in this Form 10-K have been prepared in accordance with generally accepted accounting principles, fairly present in all material respects our financial position, results of operations and cash flows for the periods presented and are free of material errors.

During 2006, we also experienced some growing pains as our initial success in the fourth quarter of 2005 and the first quarter of 2006 in placing our newly introduced Sinterstation® Pro, Viper™ Pro and 3-D Printing systems stretched our field engineering resources and presented some stability issues with certain installed systems.

ERP implementation

During the second quarter of 2006, we launched a new ERP system in the United States and in most of our European operations. The new ERP system replaced several legacy systems in which a significant portion of our business transactions originated, were recorded and were processed. This system is intended to provide us with improved transactional processing, control and management tools compared to the various legacy systems that we historically used. We believe that once fully implemented and operational, our new ERP system will facilitate better transactional reporting and oversight, improve our internal control over financial reporting and function as an important component of our disclosure controls and procedures.

We currently expect the worldwide implementation of our ERP system to involve a total investment in excess of $4.0 million in transactional automation and analysis tools and technology. As of December 31, 2006, we had incurred approximately $3.3 million in costs related to our ERP system, of which $1.0 million were incurred in 2005 and the balance were incurred in 2006. As of December 31, 2006, we had capitalized $2.7 million related to our ERP implementation. Such capitalized costs are recorded among property and equipment on our Consolidated Balance Sheet at December 31, 2006. See Note 6 to the Consolidated Financial Statements.

Our new ERP system includes numerous accounting functions as well as order processing, materials purchasing and inventory management functions. In connection with and following the implementation of our new ERP system and the disruptions that we encountered with respect to it in the second quarter of 2006, as well as the identification of the material weaknesses described above and in Part II, Item 9A, Controls and Procedures, below, we are revising our financial reporting policies and procedures to conform them to the requirements of this system and to remediate the causes of the disruptions we encountered and the material weaknesses that we identified.

Our ERP implementation program included hiring new staff in Rock Hill, South Carolina, during the early part of 2006 for training and testing of the new system while existing staff continued to perform those functions in our Valencia, California facility using our legacy systems. Consequently, during 2006, we incurred duplicate staffing costs and incurred additional costs for some temporary staffing as a result of the combined effects of relocation and new-system start-up work. The amount of these costs that we expensed amounted to $2.6 million during 2006, and most of them were incurred during the second, third and fourth quarters of 2006. Such costs were not material in 2005.

We launched our new ERP system in the U.S. on May 1, 2006 and in most of Europe in mid-June 2006. Although we believe that our ERP system ultimately will facilitate better transactional reporting and oversight and will augment the effectiveness of our internal control over financial reporting and our disclosure controls and procedures, shortly after the initial launch of the system we encountered significant problems in processing transactions in the system that affected our ability to enter and process customer orders, procure and manage inventory, schedule orders for production and shipping and invoice finished products to customers.

In particular, following the launch of our new ERP system, we noted that the resulting disruptions exposed the material weaknesses discussed above in our procedures for tracking and accounting for inventory and for reconciling

and compiling our financial records starting in the second quarter and continuing through the third and fourth quarters of 2006. Specifically, with respect to inventory, we identified a difference in the inventory values recorded in the legacy systems as a result of which they exceeded those included in our ERP

Table of Contents

system. We also performed physical inventories in which we reconciled (i) discrepancies between inventory sub-ledger values versus the corresponding amount determined through physical inventory counts and confirmatory actions, (ii) discrepancies between sub-ledger values versus general ledger balances and (iii) in-transit inventory at the end of the second, third and fourth quarters of 2006.

These ERP system and other supply chain disruptions, combined with the difficulties we had with the outsourcing of the logistics and warehousing of our spare-parts inventory discussed below, led to shortages of parts, resulting in loss of parts revenue, higher service and expediting costs and the need to compensate customers who were adversely affected by these shortages, particularly in the second quarter of 2006 and to a lesser extent the third and fourth quarters of 2006. These shortages also delayed shipments of finished products, which reduced revenue that could be recognized, particularly in the second quarter and, to a lesser extent, in the third and fourth quarters of 2006.

We determined that the difficulties that we experienced with our ERP system resulted from planning and execution and various other factors, including:

Conversion of our legacy systems to our new ERP system;

Errors in the data files imported or migrated from the legacy systems to our new ERP system;

Training of personnel with respect to the mechanics of the system conversion and the operation of our new ERP system; and

Errors in entering necessary data into our new ERP system after the launch of the system.

These problems and, in particular, the delays in processing, completing and invoicing sales, adversely affected our revenue, operating results, cash flow and working capital management primarily from the second quarter on in 2006 and are discussed in greater detail below.

As a result of these systems implementation and operation issues, we postponed the implementation of certain additional functions and capabilities of our ERP system until we have remediated the current problems with our ERP system.

Although ERP implementations are frequently difficult for an organization, we believe that through December 31, 2006 we had made and continue to make significant progress in rectifying the problems we identified with the execution of our procedures for accounting for inventory and for reconciling and compiling our financial records. See Part II, Item 9A, Controls and Procedures.

Logistics and warehousing outsourcing

As discussed above, during the second quarter of 2006, we outsourced the logistics and warehousing of our spare-parts inventory as well as certain finished products in the U.S. and Europe to a major logistics management company. Commencement of these outsourcing arrangements coincided with the launch dates of our ERP system in the U.S. and Europe. After these outsourcing arrangements commenced, we determined that there were certain problems with respect to the recording, management and shipment of inventory that was either delivered to the logistics management company or that such company shipped in response to customer orders. We believe that these problems further contributed to our negative 2006 results, primarily during the second and third quarters of 2006, by producing further disruptions in our supply chain and inventory management functions, which negatively impacted the fulfillment of customer orders.

In particular, we determined that in some cases our third-party provider did not timely reflect the status of shipped orders, resulting in discrepancies in our inventory counts and, in limited cases, duplicate shipments of products. In addition, a limited number of parts returned for repair or refurbishment were incorrectly placed in our regular parts inventory at the logistics company s warehouses, resulting in additional warranty claims, service calls and additional expense in meeting the needs of those customers who received these products in error.

We believe that these problems resulted primarily from human error in transitioning these logistics and warehousing functions to the third-party provider. We implemented additional procedures intended to both

Table of Contents

produce more timely and accurate reporting on the status of orders and to prevent these types of errors from reoccurring. In particular, we provided training and oversight controls for shipping, receiving and return processes. We also implemented faster communication connection speeds with the logistics management company that we believe helped to improve both response time and processing time at their warehouses. We believe that these unrelated logistics and warehousing issues exacerbated the problems resulting from the launch of our ERP system described above and in Part II, Item 9A, Controls and Procedures, that appears below and adversely impacted our revenue, operating results, cash flow and working capital management primarily during the second and third quarters of 2006. As a result of the remedial actions that we have carried out with respect to these outsourcing activities, we believe that we have substantially corrected the operational disruptions related to the transition of these logistics and warehousing functions.

New systems

We found that our new, sophisticated, advanced Sinterstation®Pro, Viper™ Pro and 3-D Printing systems, with their broader range of capabilities, require more extensive commissioning and training to achieve operating stability and operating potential than some of our legacy systems. As a result, during 2006, we experienced field service resource constraints that led to a delayed launch of some systems, and we experienced higher warranty and related costs and delayed revenue recognition that adversely affected our gross profit and operating results in 2006. These issues were primarily a result of the high volume of sales of these systems that we experienced, particularly in the latter part of 2005 and the early part of 2006. We worked closely with our customers to resolve stability issues in a mutually beneficial manner and to provide more extensive customer training support and installation activities than the traditional services provided with our legacy systems. During the year, we also enhanced our quality-control efforts, and teams of our employees worked to enhance and stabilize the performance of these systems, which had the effect of resolving most of these issues.

Relocation project

Early in 2006, we opened an interim facility in Rock Hill, South Carolina, began to hire employees to replace departing employees, replicated functions in Rock Hill that were previously being performed at our Valencia and Grand Junction facilities and in February 2006 entered into a lease for the construction of our new headquarters and research and development facility in Rock Hill. We also began work on exiting and disposing of our Valencia and Grand Junction facilities.

Rock Hill facility. We took occupancy of our new headquarters building in November 2006 under the lease that we entered into in February 2006, and we vacated our temporary Rock Hill facility during November.

During the second half of 2006, we entered into several amendments to the lease of our new Rock Hill facility under which we agreed to pay up to $3.4 million for certain tenant improvements and change orders necessary to complete that facility.

As a result of these amendments and our investments in the tenant improvements, we are considered an owner of the facility pursuant to Statement of Financial Accounting Standards No. 13 Accounting for Leases (SFAS No. 13). Therefore, as required by SFAS No. 13, as of December 31, 2006, we recorded $9.0 million of capitalized lease obligations in our Consolidated Balance Sheet, of which $8.5 million related to the Rock Hill headquarters building and the balance related to furniture and equipment that we acquired for that facility under a lease. See Notes 6 and 23 to the Consolidated Financial Statements.

On December 18, 2006, we entered into an agreement to purchase our new Rock Hill headquarters for $10.0 million subject to customary closing conditions, and on January 5, 2007 we and the seller amended the original purchase

agreement. Pursuant to the purchase agreement, as amended, we made an initial earnest money deposit on December 18, 2006 in the amount of $0.3 million and were obligated to make a subsequent earnest money deposit on January 15, 2007 in the amount of $0.7 million. On January 12, 2007, we gave written notice of termination to the seller which had the effect of excusing us from making the additional $0.7 million deposit. The $0.3 million deposit was fully earned by and paid over to the seller. Accordingly, the

Table of Contents

$0.3 million deposit was reflected as an expense in our Consolidated Financial Statements as of December 31, 2006. Subsequent to that date, we have continued to pursue financing arrangements that would enable us to carry out the purchase of the facility. No assurances can be given that we will obtain adequate financing that would enable us to consummate the purchase of this facility. If we do not purchase the building, the existing lease of the building will remain in effect. See Note 23 to the Consolidated Financial Statements.

Grand Junction facility. We ceased operations at our 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, 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. See Note 6 to the Consolidated Financial Statements.

The Grand Junction facility is currently listed for sale. Following the termination by the prospective buyer of a contract to purchase the facility entered into in November 2006, we entered into a new contract in April 2007 to sell the facility for a cash price of $6.8 million, subject to certain customary closing conditions. We expect to close on the sale of this facility in 2007. 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.

Valencia facility. The lease for our Valencia facility continues until December 31, 2007. At December 31, 2006, the Valencia facility had not been subleased, and we believe that it is unlikely that we will be able to sublease the facility given current market conditions, the configuration of the space and the short remaining term of the lease. We plan to continue to utilize a small portion of the facility until the expiration of the lease. The annual cost of that lease amounts to approximately $0.8 million, which we expect to incur as operating costs in 2007.

Severance and restructuring costs. We incurred $6.6 million of restructuring and severance costs primarily associated with our relocation activities in 2006, which were generally in line with our previously announced expectations. These costs adversely affected our profitability in 2006. We believe that severance and restructuring costs related to our relocation will not be material in 2007. See Note 11 to the Consolidated Financial Statements.

Restatement of Financial Statements

On February 2, 2007, we issued financial information related to the restatement of our annual financial statements as of and for the years ended December 31, 2004 and 2005 when we filed our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006. The effect of these restatements is described in Note 3 to the Consolidated Financial Statements. We identified the errors that led to these restatements in the third quarter of 2006, and we evaluated and corrected them through adjustments reflected in the restated historical Consolidated Financial Statements in accordance with SFAS No. 154, Accounting Changes and Error Corrections. We also assessed on a quarterly basis the materiality of prior-period misstatements that were previously identified but not corrected because they were originally considered not to be material. As a result of our analysis of adjustments identified during the third quarter of 2006 that were attributable to prior periods as well as previously unadjusted amounts attributable to prior periods, we concluded that the prior-period impact was material in the second and fourth quarters of 2005 as well as for the year ended December 31, 2004. Therefore, the restated financial information reflects adjustments to correct or record all such previously unadjusted amounts.

In September 2001, we acquired our Swiss subsidiary, 3D Systems S.A., a manufacturer and developer of stereolithography and other materials. We recorded and maintained goodwill related to this acquisition in U.S. dollars on our balance sheet rather than in Swiss francs, the functional currency of our Swiss subsidiary, on its balance sheet as required by generally accepted accounting principles. If we had correctly recorded this goodwill on the subsidiary s balance sheet at the time of the acquisition, the related foreign currency translation effects would have resulted in

periodic adjustments to goodwill and to stockholders equity on our Consolidated Balance Sheets for the years ended December 31, 2001 through December 31, 2006, which adjustments would have arisen from changes in other comprehensive income (loss) in each year.

Table of Contents

We corrected this error, and the restated financial information included in this Form 10-K reflects adjustments to correct the previously unadjusted amounts of goodwill, stockholders equity and other comprehensive income (loss) for each year ended on or before December 31, 2006. Neither this error nor its correction had any effect on net income (loss) reported for any period on our Consolidated Statements of Operations. As of 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.

This Annual Report on Form 10-K includes all of the restated financial information for each financial period that is reported in this Form 10-K and that was affected by the restatement. Except for the goodwill and related adjustments discussed in the preceding paragraph, that information is also included in Quarterly Reports on Form 10-Q for the quarterly period ended September 30, 2006 and on Form 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 that we have previously filed with the Securities and Exchange Commission (the SEC).

We identified the errors in our first and second quarter 2006 financial statements primarily as a result of our efforts to remediate the material weaknesses that we had previously identified and disclosed as discussed elsewhere in this Form 10-K as well as through our ongoing efforts to:

Implement our new ERP system;

Reconcile the records in our new ERP system and those in our legacy systems; and

Test our internal controls in the context of our new ERP system environment.

In connection with restating our financial statements, we identified additional material weaknesses that we are working to remediate. See Part II, Item 9A, Controls and Procedures.

The restated consolidated financial information is set forth in Note 3 to the Consolidated Financial Statements below and is further discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Products and Services

Our principal technology platforms include our stereolithography or SLA® equipment, our selective laser sintering or SLS® equipment, our 3-D printing or InVision® jet and layer-deposition equipment and our recently introduced film transfer imaging V-Flash™ desktop modeler. These systems use patented and proprietary stereolithography, selective laser sintering, 3-D printing and film transfer imaging 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 metal materials that we market to produce physical parts 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 a comprehensive suite of software tools and field services to our customers, ranging from applications development to installation, warranty and maintenance services.

New Products and Alliances

We are working to accelerate our new product development through quick and targeted development cycles in order to promote our growth and profitability, to sustain our commitment to technological leadership and to meet the needs of our customers for new 3-D printing and rapid manufacturing solutions. From the

Table of Contents

latter part of 2003 through the end of 2006, our efforts have resulted in the introduction of 35 new products that have expanded and reinvigorated our product line. As discussed in greater detail below, revenue from legacy products continued to decline in 2006, consistent with its past trend, as revenue from new products has increased.

Since the beginning of 2006, we have announced several new products, including:

The V-Flash™ desktop modeler, a fourth technology platform using film transfer imaging that can build ready-to-use, three-dimensional models within hours at home, school and office workstations;

A 30% faster model of our InVision® LD 3-D printer;

A new dental lab system, the InVision® DP (Dental Professional), which is capable of producing castable wax-ups for dental copings and bridges;

A new suite of software, 3DView™, 3DManage™ and 3DPrint™, for our stereolithography systems, selective laser sintering systems and InVision® 3-D printers that we expect to provide numerous productivity and cost-saving benefits to our customers;

Accura® 60 plastic, a new stereolithography material that simulates the look and feel of molded polycarbonate;

Accura® 55 plastic, a new ABS-like stereolithography material; and

New VisiJet® LD100 materials in two new colors, red and blue.

In addition, we announced several new alliances during 2006, including:

We entered into an agreement with Symyx Technologies, Inc. early in the second quarter to work together to discover and commercialize advanced materials for use in our rapid prototyping and rapid manufacturing solutions. As we move forward with this research and development project, we plan to fund up to $2.4 million of research by Symyx through the first quarter of 2008, and we expect Symyx to develop new materials formulations that we anticipate will be made available to our customers for specialized rapid prototyping applications as well as rapid manufacturing applications.

During the second quarter, we engaged two outside service providers to broaden our ability to provide service to our stereolithography and selective laser sintering customers.

During the first quarter, we reached an agreement in principle with DSM Somos to cross-license certain patents and other intellectual property related to stereolithography materials.

During the first quarter, we announced a strategic collaboration with Materialise, one of the leaders in software industry s development for rapid prototyping and manufacturing, to distribute jointly their Magics product line worldwide.

Systems Solutions

SLA® systems and related equipment

Stereolithography, or SLA®, systems convert engineered materials and composites into solid cross-sections, layer by layer, until the desired fully fused objects are complete. Our SLA® systems are capable of making multiple objects at

the same time and are designed to produce objects in a wide range of sizes and shapes.

Parts produced through stereolithography 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 other uses, to creating new designs for testing in consumer focus groups.

Table of Contents

Our SLA® systems are capable of producing tools, fixtures, jigs and end-use parts in rapid manufacturing applications, including 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. During 2005, we introduced our Viper™ Pro SLA® system, an advanced, flexible, high-capacity stereolithography system. This system 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. Designed for around-the-clock operation, the Viper™ Pro system facilitates maximum capacity utilization and superior part production. This system is currently available in two configurations, including a dual vat configuration that enables customers to build parts from different materials simultaneously, and we expect to introduce in 2007 a third configuration with a single, extra-large vat that will enable customers to build large parts up to 1.5 meters in length at 750 millimeters in width. In addition to our Viper™ Pro SLA® systems, our family of SLA® systems includes the Viper™ system which operates in the same fashion as the Viper™ Pro but has a smaller build area and a lower build throughput rate. It also differs from the Viper™ Pro in its ability to build even smaller fine featured parts such as jewelry and electrical connectors.

With the introduction of our new-from-the-ground-up Viper™ Pro series, we decided to discontinue production of our older generation SLA® 5000 and SLA® 7000 systems, which have been in our product line since the late 1990 s. We plan to remove these systems from our product line as soon as we fulfill prior orders and sell existing inventory.

SLS® systems and related equipment

Our selective laser sintering, or SLS®, systems convert 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 engineered plastic and metal powders and are capable of processing multiple parts in a single build session.

Introduced in 2005, our Sinterstation® Pro SLS® system is an automated selective laser sintering manufacturing system. These systems are designed to enable our customers to mass customize and produce high-quality end-use parts, patterns, fixtures and tools consistently and economically from our proprietary engineered plastics, on-site and on-demand. We have introduced two models of this system, the Sinterstation®Pro 230 SLS® system and the Sinterstation® Pro 140 SLS® system, which differ primarily in the size of their build platforms. The Sinterstation® Pro series is designed as an alternative rapid manufacturing solution to traditional injection molding, casting and machining methods.

In addition to our Sinterstation® Pro SLS® systems, our line of selective laser sintering systems includes the Sinterstation® HiQ™ SLS® system and the Sinterstation® HiQ™ high-speed or HS SLS® system, manufacturing-capable systems that we introduced in 2004 to succeed our Vanguard™ and Vanguard™ HS systems.

All of our SLS® systems create durable parts from proprietary engineered plastic and metal materials and composites that we market primarily under the DuraForm® brand name. 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. When used in conjunction with a high-temperature oven, our SLS® systems can also create metal parts from several proprietary engineered metal composites that we sell. These parts can

be used as tools, functional test models and end-use parts.

Table of Contents

The combination of materials flexibility, part functionality and high throughput of our SLS® technology makes it well suited to rapid manufacturing applications, and much of our current development work is directed at developing applications of our equipment for this environment and expanding the range of applications through the use of proprietary engineered materials.

3-D Printing systems

Our line of InVision® 3-D Printers are advanced, user-friendly office modeling, design communication and precision-casting systems. These printers accept digital input from either a three-dimensional CAD station or a scanned 3-D image, converting the digital file one thickness slice at a time and create a solid part in an additive layer-by-layer build up.

Our family of 3-D Printers includes our standard-resolution InVision® SR 3-D Printer model, launched in late 2003, our high-resolution InVision® HR 3-D Printer Model, launched in mid-2004 and our InVision® DP (Dental Professional) printer model, launched in 2006. Our high-resolution InVision® HR 3-D Printers can create intricate and complex geometrical shapes that are investment-casting ready for jewelry, dental molding, medical implant and precision casting applications. The InVision® DP 3-D Printer system includes the InVision® DP printer, InVision® 3-D scanner and InVision® DP software, specifically designed for dental laboratory needs to print wax-ups with proprietary, light-cured materials.

We also market worldwide our InVision® LD 3-D Printer, launched in 2005 under an OEM supply agreement with Solidimension Ltd. under which we began offering these systems as part of our InVision® family of 3-D Printers. This desktop 3-D printer uses a layered deposition technology that builds complex geometrical shapes one slice thickness at a time and is designed for communication and concept modeling applications.

InVision® 3-D Printers offer superior finished surfaces, plug-and-play installation, point-and-print functionality and best-in-class part resolution. InVision® 3-D Printers operate much like a desktop two-dimensional printer and are priced economically, responding to a growing demand from customers for affordable parts for design communication and shape analysis. As discussed above, we believe that, in addition to our focus on and pursuit of rapid manufacturing opportunities, 3-D printing provides us with a significant opportunity for growth.

Together with our VisiJet® materials, InVision® 3-D Printers enable designers, engineers, architects and marketers to communicate their concepts quickly and frequently and substantially reduce the time it takes to bring new products to market.

Film transfer imaging

We recently announced the V-Flash™ Desktop Modeler, a fast, simple and compact new office modeler that we expect to commercialize in 2007. We expect the V-Flash™ modeler to have the capability of creating SLA®-like quality, three-dimensional models in the office, home or school setting.

Other systems-related products

To help our customers produce ready-to-use parts and functional prototypes, we market several ancillary devices for post-processing and curing of parts produced on our SLA® systems, including our ProCure™ stainless steel part-curing system. This new line of ovens introduced in 2005 cures parts produced on all SLA® systems. Designed for hands-free operation, these systems have a built-in stand and storage cabinet and feature closed-loop time and temperature controls, self-monitoring intelligence and an automated push-button front door for convenient loading and unloading of parts. We also market the InVision® Finisher for our 3-D Printers, which removes the support material

from the finished part.

Software

As part of our comprehensive and integrated systems solutions, we offer proprietary part-preparation software that is designed to enhance the interface between our customers digital data and our systems. Digital

Table of Contents

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 to be used by the SLS® system, SLA® system, 3-D Printer or desktop modeler to create solid objects. From time to time, we also work with third parties to develop complementary software for our systems.

In 2005, we introduced our Lightyear™ 1.5 and Buildstation™ 5.5 Software. This software for stereolithography systems has many features that make these systems more productive and enhance part quality. Key features include support for the Windows® XP operating system, the ability to change recoat and build parameters on the fly, the ability to delete parts during a build and a high-fidelity slicer that can significantly improve the smoothness of parts. Customers owning certain legacy stereolithography systems can upgrade to this software by purchasing a new or upgraded electronics package.

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 Printers under the VisiJet® brand.

Our family of engineered materials and composites includes proprietary Accura® materials used in our stereolithography systems, photocurable plastics, engineered plastic films and adhesives used in our 3-D printer systems and various proprietary plastic, composite and metal materials used in our selective laser sintering systems. Our extensive family of proprietary materials is specifically designed for use with our systems to produce high-quality models, prototypes and manufactured parts. Our Viper™ Pro, Sinterstation (R) Pro and InVision® 3-D printers have materials packaged in smart, proprietary cartridges with built-in electronic intelligence that communicates vital processing and quality statistics in real time with the systems. Each cartridge enhances system functionality, up-time, materials shelf life and reliability to provide 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. 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 particular, we distribute a full range of Somos® branded SLA® materials produced by DSM Somos under a non-exclusive global distribution arrangement that we entered into in 2004.

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, the proprietary liquid materials that we market and sell 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.

In addition to Accura® 60 plastic described above, since 2005 we have launched several new stereolithography materials including Accura® 25 plastic. This material is an opaque, white, engineered material that is available for all solid-state-equipped SLA® systems, including our Viper™ Pro SLA® systems. Accura® 25 plastic mimics the look and feel of molded polypropylene and delivers excellent accuracy, speed and shape-memory, making it suitable for functional prototypes as well as master patterns. Its durability and flexibility

Table of Contents

make Accura® 25 plastic ideal for automotive and electronics applications, including prototyping and design of trim components and fascia and testing of connectors, wiring harnesses and enclosures.

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, multiple materials can be processed through the same sintering system.

In 2005, we introduced several new laser sintering materials, including our DuraForm® FR Plastic, DuraForm® Flex Plastic, DuraForm® AF Plastic and DuraForm® EX Plastic.

DuraForm® FR plastic is a flame retardant material that is designed for exclusive use in our new Sinterstation® Pro SLS systems. It is the first laser sintering material to be packaged specifically for the Sinterstation® Pro system, and it has passed FAA and airline burn, smoke and toxicity tests, making it ideal for aerospace manufacturers and customers in other industries to produce end-use parts for a variety of applications directly in our SLS® systems.

DuraForm® Flex Plastic is a rubber-like, tear-resistant, flexible plastic that can be used in our selective laser sintering systems to produce functional prototypes and end-use parts for which rubber-like, flexible characteristics are useful.

DuraForm® AF Plastic is a cast-aluminum-like engineered composite for use in our selective laser sintering systems that has the appearance of aluminum, the excellent surface finish and fine feature definition of our proprietary un-reinforced DuraForm® plastics and the superior stiffness of an engineered composite. DuraForm® AF plastic is designed to provide our customers with materials suited for applications such as aerodynamic models, jigs and fixtures, household appliances, casting patterns and functional prototypes such as cases and metal enclosures.

DuraForm® EX Plastic is an advanced, engineered, production-grade plastic, designed for use in our Sinterstation® Pro SLS® and Sinterstation® HiQ™ systems, that targets rapid manufacturing applications. DuraForm® EX plastic provides the toughness of injection-molded plastic that aerospace, automotive and motorsports customers require for demanding prototyping and low-volume to mid-volume manufacturing applications. Because of its stiffness, heat-resistance, long-term stability and durability, DuraForm® EX plastic is ideal for a wide variety of parts manufacturing, including environmental ducts, electronics enclosures, manifolds, dashboards and bumpers.

Our DuraForm® PA, DuraForm® EX and DuraForm® GF materials are used to create rapid manufacturing end-use parts, examples of which include air ducts for aerospace applications and coupling enclosures. These materials are also used to produce functional prototypes and durable patterns as well as assembly jigs and fixtures. Our DuraForm® Flex material is used to produce flexible, rubber-like parts such as shoe soles, gaskets and seals. Our CastForm™ material is used to create patterns for investment-casting. Customers use our metal LaserForm™ A6 steel powders to produce functional prototype parts for tooling such as injection molding tool inserts and for end-use parts used in customized rapid manufacturing applications. 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 Printing materials

Our materials for our InVision® standard-resolution and high-resolution 3-D Printers include our line of VisiJet® model materials and a compatible VisiJet® disposable support material that is used in the printing process and then discarded when the model is complete. Both of these materials are distributed to customers in the form of proprietary

smart cartridges that are loaded into an InVision® standard-resolution or high-resolution 3-D Printer in a stack where they are automatically pierced, pumped and ejected sequentially as the printer consumes material. We have specifically developed these materials to meet the consumption, speed and

Table of Contents

cost requirements of three-dimensional printing applications. In 2005, we introduced VisiJet® HR 200 material for the InVision® HR 3-D Printer. This material is designed for use in our InVision® HR 3-D printers and is primarily intended for applications, such as jewelry manufacturing and dental labs that require intricate, high-resolution capability to produce feature-rich models, patterns and parts that are used as master patterns for casting into gold, white gold or silver.

Also in 2005, we introduced VisiJet® SR 200 plastic for the InVision® SR 3-D Printer. This material is designed for use in our InVision® SR 3-D printers. Parts built from VisiJet® SR 200 plastic offer the same outstanding feature detail and surface finish as parts built with our previous VisiJet® M100 material but are about 2 to 3 times stiffer and stronger, mimicking the general performance characteristics of high-volume thermoplastics such as polypropylene and ABS. While this new material is primarily intended for design communication and concept modeling applications, it is also suitable for pattern making and can be used for functional testing.

We also introduced VisiJet® LD100 plastic for the InVision® LD 3-D Printer in 2005. This material is designed for use in our InVision® LD 3-D printers. Parts made from this engineered plastic can be used for a variety of design communication and concept modeling applications for designers, engineers and marketers as well as educators in universities, technical colleges and high school engineering and industrial design departments.

Services

We provide a suite of comprehensive customer services and local field support on a worldwide basis for all of our stereolithography and selective laser sintering systems. We are working to build a reseller channel for our line of InVision® 3-D Printers and to train our resellers to perform installations and service for those printers, and during 2006 we entered into arrangements with selected outside service providers to augment our service capabilities.

Such services and support include extended system warranties, an extensive menu of annual service agreement options and a wide variety of software and hardware upgrades and performance enhancement packages. Since 2004, we have introduced several service contract alternatives to offer additional, flexible service contract options to our customers.

Our customer support begins before a system sale with applications development provided by our applications engineering team. This same group works to ensure that our systems satisfy customer expectations through customer training and system launch support. Our global services customer support team coordinates system installation, maintenance and call-center hotline support in an effort to ensure that our systems continue to deliver high value to our customers.

We provide services to assist our customers and resellers in developing new applications for our technologies, to facilitate adaptation 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.

Our applications engineers, who possess technical knowledge in various fields such as casting, molding and tooling, develop applications of our various technologies that are designed to meet specific customer needs. They work with our customers and resellers to determine which of our technologies would best meet their requirements. They also consult with customers and resellers to develop rapid manufacturing applications for our systems.

We also install new systems at the customer s site, provide warranty and maintenance services and provide the customer with technical support. New SLS®, SLA® and 3-D Printer systems are sold with on-site hardware and software maintenance service that generally covers a warranty period ranging from 90 days to one year. We offer service contracts that enable our customers to continue maintenance coverage beyond the initial warranty period.

These service contracts are offered with various levels of support depending on various factors, including the materials that are included and the response time for the service. As a key element of warranty and service contract maintenance, our sales engineers provide regularly scheduled preventative maintenance visits to customer sites.

Table of Contents

We have customer-support sales engineers in North America, several countries in Europe and in parts of Asia to support our worldwide customer base. We also provide training to our distributors and resellers to enable them to perform these services.

Our customer support group maintains call-center hotlines in the U.S. and in Europe that are staffed with technical representatives. These hotlines are available during business hours in the U.S. and Europe. These call centers are further supplemented by support from the applications engineering group.

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

We also offer systems upgrade kits for sale to existing customers to enable them to take advantage of new or enhanced system capabilities. Our current family of upgrade kits includes kits to upgrade the installed base of our stereolithography equipment and an upgrade kit for our former Vanguard™ SLS® systems that improves productivity. We view upgrade kits for our existing systems as an important part of the value that we provide to new customers when they are considering the purchase of our systems. However, we have begun discontinuing 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, we worked with York Technical College in Rock Hill to develop a new training center, located adjacent to our Rock Hill facility, that the College will operate to train our employees, customers, students and others in the use of our systems and technologies. 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, 2006. Revenue in countries outside of the U.S. accounted for 56.5%, 53.0% and 58.4% of consolidated revenue in the years ended December 31, 2006, 2005 and 2004, respectively. See Note 22 to the Consolidated Financial Statements.

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, 2006 appears in Note 22 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, materials and services through our direct sales organization, which is supported by our dedicated sales and service engineers and our sales 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 InVision® 3-D Printers, materials and services are sold worldwide 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 model, mold

Table of Contents

and prototyping, 3-D printing 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 printing 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, 2006, our worldwide sales, application and service staff consisted of 171 employees.

Our marketing programs also utilize seminars, trade shows, advertising, direct mailings, electronic marketing, telemarketing, literature, web presence, videos, press releases, brochures and customer and application profiles to identify prospects that match a typical user profile. We co-founded and participate in global user groups, whose members include a substantial number of our customers. These user groups organize annual conferences in the U.S., at which we make presentations relating to updates in our technologies and equipment and materials offerings and future ideas and programs we intend to pursue.

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, 2006.

Production and Supplies

Since 2004, 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 now 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 the VisiJet® materials used in certain of our InVision® 3-D Printers at our facilities in Marly, Switzerland, where we also produce some of our Accura® stereolithography materials. We also have arrangements with third parties that 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.

Although there are several potential suppliers for the raw materials used in the materials and composites that we produce, we decided to use selected suppliers for these raw materials. If we were required in the future to enter into relationships with alternative suppliers, our cost of sales could increase and consequently our gross profit margin could decline.

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 on-going 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

Table of Contents

software and materials. This includes all significant technology platform developments for SLA®, SLS®, 3-D printing and film transfer imaging 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 **$**14.1 million**,** $12.2 million and $10.5 million in 2006, 2005 and 2004, respectively. We expect that our annual research and development expenses will be in the range of $12.0 million to $13.0 million in 2007.

Intellectual Property

At December 31, 2006, we held 406 patents, which included 189 patents in the United States, 162 patents in Europe, 31 patents in Japan and 24 patents in other countries. At that date, we also had 158 pending patent applications, which included 45 in the United States, 54 in Japan, 51 in European countries and 8 in other countries.

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 3-D printing processes expire at varying times ranging from 2008 to 2022. We have also filed a number of patent applications covering inventions contained in our recently introduced SLA®, SLS®, 3-D printing and film transfer imaging systems.

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 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 printing, 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 printing, rapid prototyping and rapid manufacturing systems. Accordingly, our on-going 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 with respect to our systems are companies that manufacture machines that 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, and plastics molding equipment; suppliers of traditional machining, milling and grinding equipment; suppliers of Fused Deposition Modeling or FDM technology; suppliers of vacuum casting equipment; and manufacturers of other stereolithography, laser sintering and three-dimensional printing systems based on various technologies. 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. 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.

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. Included among these arrangements are license agreements that we granted to Sony Corporation and other companies with respect to our stereolithography technology, a license that we granted to EOS GmbH with respect to our selective laser sintering technology in 2004 and a license that we granted to Objet Geometries, Ltd. in 2005 with respect to certain of our patents related to 3-D printing equipment. Under certain of these

Table of Contents

licenses, we are entitled to receive 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, 2006.

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, and through improvements to existing technologies, such as CNC and rotational molding.

Employees

At December 31, 2006, we had 341 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.

During 2006, in addition to those employees from our Valencia, California and our Grand Junction, Colorado facilities who relocated to our new facility in Rock Hill, South Carolina or remained in our Valencia-based advanced research facility, we recruited approximately 97 employees to join us at our new Rock Hill facility.

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.

Various 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 charter documents and By-Laws, are also available on that website.

Item 1A. Risk Factors.

For a discussion of certain risks associated with our business, the industry in which we operate and the ownership interests of holders of our Common Stock and other equity securities, and other considerations that may affect our results of operations and financial condition, please see the section entitled Cautionary Statements and Risk Factors contained in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties.

Rock Hill facility. We took occupancy of our new 80,000 square foot headquarters building 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 approximately $0.1 million in 2006, $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

Table of Contents

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.

During 2006, we entered into several amendments to the lease for this facility under which we agreed to pay up to $3.4 million for certain tenant improvements in excess of the initial allowance for tenant improvements and change orders necessary to complete that facility. See Note 23 to the Consolidated Financial Statements.

Grand Junction facility. 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, 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. See Note 6 to the Consolidated Financial Statements.

The Grand Junction facility is currently listed for sale. Following the termination by the prospective buyer of a contract to purchase the facility entered into in November 2006, we accepted an offer to purchase the facility for a cash price of $6.8 million in April 2007, subject to customary closing conditions. 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 Note 13 to the Consolidated Financial Statements.

Valencia facility. The lease for our 78,000 square-foot Valencia facility continues until December 31, 2007. At December 31, 2006, the Valencia facility had not been subleased, and we believe that it is unlikely that we will be able to sublease the facility given current market conditions, the configuration of the space and the short remaining term of the lease. We plan to continue to utilize a small portion of the facility until the expiration of the lease. The annual cost of that lease amounts to approximately $0.8 million, which we expect to incur as an operating cost in 2007.

Other facilities. We also lease a 9,000 square-foot general-purpose facility in Marly, Switzerland at which we blend stereolithography and 3-D printing 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 a party to certain legal actions and government investigations that are summarized below.

On May 6, 2003, we received a subpoena from the U.S. Department of Justice to provide certain documents to a grand jury investigating antitrust and related issues within our industry. We understand that the issues being investigated include issues involving the consent decree that we entered into and that was filed on August 16, 2001 with respect to our acquisition of DTM Corporation and the requirement of that consent decree that we issue a broad intellectual property license with respect to certain patents and copyrights to another entity already manufacturing rapid prototyping industrial equipment. We complied with the requirement of that consent decree for the grant of that license in 2002. In connection with that investigation, the grand jury has taken testimony from various individuals, including certain of our current and former employees and executives. Although we were originally advised that we are not a target of the grand jury investigation, we understand that the current status of this investigation is uncertain. If any claims are asserted against us in this matter, we intend to defend against them vigorously. In October 2006, we

received additional subpoenas to supply certain additional information to that grand jury. We have furnished documents required by the subpoenas and are otherwise complying with the subpoenas.

Table of Contents

On April 3, 2007, we received a Nasdaq Staff Determination notice indicating that our Common Stock was subject to delisting because we were not in compliance with Nasdaq Marketplace Rule 4310(c)(14), which requires the timely filing of periodic reports in order for continued listing. We received the letter because we had not timely filed our Annual Report on Form 10-K for the year ended December 31, 2006. We requested and were granted a hearing before a Nasdaq Listing Qualifications Panel (the Panel) to review the Staff Determination.

Previously, on November 16, 2006, we received a Nasdaq Staff Determination notice indicating that our Common Stock was subject to delisting because we were not in compliance with Nasdaq Marketplace Rule 4310(c)(14), which requires the timely filing of periodic reports in order for continued listing. We received the letter because we had not timely filed our Quarterly Report on Form 10-Q for the period ended September 30, 2006. We requested and were granted a hearing before the Panel to review the Staff Determination. On January 11, 2007, a hearing was held before the Panel regarding our appeal of the Staff Determination to delist our Common Stock. We subsequently filed our Quarterly Report on Form 10-Q for the period ended September 30, 2006 on February 2, 2007. On February 12, 2007, we received notice from the Panel of its determination to continue the listing of shares of our Common Stock on The Nasdaq Stock Market.

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

Table of Contents

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 2006.

Executive Officers

The information appearing in the table below sets forth the current position or positions held by each of our executive officers and his age as of March 1, 2007. 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, 2007
Abraham N. Reichental President and Chief Executive Officer	50
Charles W. Hull Executive Vice President, Chief Technology Officer	67
Brian K. Fraser Vice President	45
Stephen M. Goddard Vice President	43
Robert M. Grace, Jr. Vice President, General Counsel and Secretary	60
Cary J. Love Vice President	42
Kevin P. McAlea Vice President	48
Gerald J. Pribanic Interim Vice President, Chief Financial Officer	63
Ray R. Saunders Vice President	58
William J. Tennison Vice President, Controller and Chief Accounting Officer	56

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. Love joined us on February 23, 2005 and was elected a Vice President effective January 16, 2006. Previously, he was employed by Xerox Corporation for more than 18 years in various sales and marketing

Table of Contents

management positions, most recently serving as National General Manager for its Engineering Systems Division.

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.

Mr. Pribanic joined us in November 2006 as a consultant on various finance matters and, on February 13, 2007, was appointed Interim Vice President and Chief Financial Officer while we search for a permanent chief financial officer. Mr. Pribanic has been a partner with Tatum, LLC, an executive services firm, since August 2003. He previously served as Chief Financial Officer of Milliken & Company, a textile and chemical manufacturer, from March 2002 to July 2003, and as Executive Vice President and Chief Financial Officer of Maytag Corporation, a manufacturer of home and commercial appliances, from January 1996 to August 2000.

Mr. Saunders was elected a corporate Vice President in May 2003 and, from July 2002 to May 2003, served as Vice President of Operations and Development. Previously, he served as Vice President of Manufacturing beginning in September 2000. For more than five years prior to September 2000, he served as Director of Operations for Axiohm Transaction Solutions, Inc., a manufacturer and seller of specialty printers and related products, where he was responsible for the manufacturing operations of their San Diego Division.

Mr. Tennison joined us on August 14, 2006 and was elected Vice President, Controller and Chief Accounting Officer on November 30, 2006. From 2004 to 2006, Mr. Tennison served as a Financial Consultant for Sherpa LLC, a management consulting firm, with responsibility for Sarbanes-Oxley compliance and financial reporting engagements. From 2002 until 2004, Mr. Tennison served as COO/CFO of The Salem Group, Inc., a privately held business specializing in re-selling mid- and large-frame computers and computer storage equipment. Prior to that time, he was employed as a Financial Consultant for RHI Management Resources, a management consulting firm, primarily focused on strategic planning, mergers and acquisitions and SEC financial reporting engagements.

On April 25, 2007, Mr. Damon J. Gregoire joined us as Vice President and Chief Financial Officer. Mr. Gregoire, age 39, has served as Vice President of Finance of Infor Global Solutions, Inc., an international software company, 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 Analyst of Paymentech, L.P., an international credit card processing company. Mr. Pribanic will continue to serve as Interim Vice President and Chief Financial Officer during a brief transition period.

Table of Contents

PART II

Item 5. Market for Our 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 as quoted on The Nasdaq Stock Market s Global Market. Our stock trades under the symbol TDSC.

Year	Period	High	Low
2005	First Quarter	$ 23.73	$ 17.25
	Second Quarter	$ 25.20	$ 15.57
	Third Quarter	$ 26.49	$ 18.82
	Fourth Quarter	$ 22.92	$ 15.88
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

As of March 20, 2007, our outstanding Common Stock was held of record by approximately 360 stockholders.

Dividends

We do not currently pay 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, including the provisions of our credit agreement with Silicon Valley Bank. See Note 13 to the Consolidated Financial Statements.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2006.

Table of Contents

Stockholder Performance Graph

The graph below shows, for the five years ended December 31, 2006, the cumulative total return on an investment of $100 assumed to have been made on December 31, 2001 in our Common Stock. 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 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

	12/01	12/02	12/03	12/04	12/05	12/06
3D Systems Corporation	100.00	54.74	71.23	139.51	126.32	112.00
Nasdaq Composite	100.00	69.66	99.71	113.79	114.47	124.20
S & P Information Technology	100.00	62.59	92.14	94.50	95.44	103.47

Table of Contents

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

The Selected Consolidated Financial Data set forth below for the five years ended December 31, 2006 has been derived from our historical Consolidated Financial Statements. As noted in the following table, the financial information for various years prior to 2006 has been restated.

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, 2006 included in this Annual Report on Form 10-K.

	Year ended December 31,				
	2006	Restated 2005(1)	Restated 2004(1)	Restated 2003(1)	Restated 2002(1)
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Consolidated Revenue:					
Systems and other products	$ 46,463	$ 55,133	$ 46,208	$ 41,081	$ 49,420
Materials	52,062	44,648	37,999	32,003	31,619
Services	36,295	39,297	41,403	36,931	34,922
Total	134,820	139,078	125,610	110,015	115,961
Gross profit(2)	46,257	62,162	56,556	43,143	46,621
Income (loss) from operations(3)	(25,691)	8,415	6,062	(14,974)	(21,430)
Income (loss) before income taxes	(27,101)	7,715	4,081	(17,876)	(5,957)
Cumulative effect of changes in accounting principles(2)(3)				(7,040)	
Net income (loss)(4)	(29,280)	9,406	3,020	(26,023)	(14,866)
Series B convertible preferred stock dividends(5)	1,414	1,679	1,534	867	
Net income (loss) available to common stockholders	(30,694)	7,727	1,486	(26,890)	(14,866)
Net income (loss) available to common stockholders per share(6):					
Basic	$ (1.77)	$ 0.52	$ 0.11	$ (2.10)	$ (1.16)
Diluted	$ (1.77)	$ 0.48	$ 0.11	$ (2.10)	$ (1.16)
Consolidated Balance Sheet Data:					
Working capital	17,335	$ 43,809	$ 28,545	$ 18,823	$ (8,799)
Total assets	166,194	153,800	135,028	134,205	134,062
Current portion of long-term debt and capitalized lease obligations	11,913	200	180	165	10,500
Long-term debt and capitalized lease obligations, less current portion	24,198	26,149	26,449	36,629	14,090
Series B convertible preferred stock(5)		15,242	15,196	15,210	

Total stockholders equity	69,669	70,212	55,656	38,258	60,684
Consolidated Cash Flow Data:					
Net cash provided by (used in) operating activities	$ (8,551)	$ (5,760)	$ 2,588	$ 1,182	$ 1,314
Net cash used in investing activities	(11,016)	(2,669)	(1,935)	(2,131)	(11,015)
Net cash provided by financing activities	9,964	5,506	1,148	22,229	5,843
Other Data:					
EBIT(7)	$ (25,456)	$ 9,473	$ 6,571	$ (21,926)	$ (3,321)
Depreciation and amortization	6,529	5,926	6,956	8,427	9,902
Interest expense	1,645	1,755	2,490	2,990	2,636
EBITDA(7)	(18,927)	15,399	13,527	(13,499)	6,581
Capital expenditures	10,100	2,516	781	874	3,210

(1) We restated our financial statements during 2006 as a result of our identification of errors in the financial statements. See Note 3 to the Consolidated Financial Statements.

Table of Contents

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 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 $1,009 increase through December 31, 2002, 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. See Note 3 to the Consolidated Financial Statements.

(2) As of December 31, 2003, we changed our method of accounting for amortization of one of our patent licenses. Amortization of the license cost had previously been based upon the number of units produced during the period as a percentage of the total number of units estimated to be sold over the life of the license. We treated this change as a change in accounting principle. The effect of this change in accounting principle was to increase our cost of sales in 2003 by $0.3 million and our net loss in 2003 by $1.4 million. As a result of this change, the amortization of the license cost in 2003 was applied on a straight-line basis over the approximate 7-year life of the license and included in cost of sales. The $1.1 million cumulative effect of this change in accounting principle, if applied retroactively, would have increased cost of sales by $0.3 million for the year ended December 31, 2002. The increase in cost of sales would have had a corresponding effect on other elements of our results of operations for those periods. We had previously recorded $0.1 million of amortization expense in cost of sales for the year ended December 31, 2002.

(3) As of December 31, 2003, we changed our method of accounting for legal fees incurred in the defense of our patent and license rights. These costs had been recorded as intangible assets on the balance sheet and were being amortized over the lives of the related patent or license rights, which range from seven to nine years. We treated this change as a change in accounting principle. As a result of this change, legal fees incurred in the defense of patent and license rights for the year ended December 31, 2003 were recorded as part of selling, general and administrative expenses. The $4.5 million amount of such legal fees previously capitalized for the year ended December 31, 2002 was expensed in 2003 and, together with

Table of Contents

amounts of such previously capitalized fees for prior years, were recorded as a cumulative effect of this change in accounting principle in the statement of operations, net of accumulated amortization of $0.4 million. We had previously recorded $0.3 million of amortization expense for these capitalized legal fees for the year ended December 31, 2002.

(4) 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 21 to the Consolidated Financial Statements.

(5) 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.

Our Consolidated Statement of Operations for 2006 includes $1.4 million of dividends associated with the Series B Convertible Preferred Stock through its conversion date including, in addition to regularly scheduled dividends to May 5, 2006, $1.0 million of non-cash deemed dividends associated with the write-off of the initial offering costs that remained unaccreted as of June 8, 2006 and dividends accrued from May 5 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. Prior to its full conversion, the annual dividends paid on the Series B Convertible Preferred Stock amounted to $1.6 million per year.

(6) Basic and diluted net loss per share in 2003 included a loss of $0.55 per share arising from the cumulative effect of the changes in accounting principles described in Notes 2 and 3 above. Before giving effect to such cumulative effect, basic and diluted net loss per share amounted to $1.55.

(7) EBIT is defined as income (loss) before interest expense and provisions for income taxes. EBITDA is defined as EBIT plus depreciation and amortization, and we define EBITDA by reference to net cash provided by or used in operating activities as adjusted to exclude interest expense, income tax expense (benefit) and net changes in operating assets and liabilities and other adjustment items set forth on the Consolidated Statement of Cash Flows. Our calculation of EBIT and EBITDA is set forth in the table below.

Our management believes that EBIT and EBITDA are of interest to investors as frequently used measures of a company s ability to generate cash to service its obligations, including debt service obligations, and to finance capital and other expenditures. EBIT and EBITDA do not purport to represent net earnings or net cash provided by operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to such measurements or as indicators of our performance. Our definition of EBIT and EBITDA may not be comparable to similarly titled measures used by other companies. EBIT and EBITDA are among the indicators used by our management to measure the performance of our operations and are also among the criteria upon which performance-based compensation may be based. The following table sets forth the reconciliation of EBIT and EBITDA to net cash provided by (used in) operating activities for the five years ended December 31, 2006.

Table of Contents

	Year ended December 31,				
	2006	2005 (Restated)	2004 (Restated)	2003	2002
	(in thousands of dollars, except per share amounts)				
Reconciliation of net cash provided by operating activities in EBIT and EBITDA:					
Net cash provided by (used in) operating activities	$ (8,551)	$ (5,760)	$ 2,588	$ 1,182	$ 1,314
Adjustment for items included in cash provided by (used in) operating activities but excluded from the calculation of EBIT and EBITDA					
(Provision for) benefit of deferred taxes	(1,752)	2,500			(7,813)
Gain on arbitration settlement					20,310
Adjustments for allowance accounts	(1,612)	48	216	(990)	(2,942)
Adjustments for inventory reserves	(968)	733	310	(1,755)	(585)
Net gain (loss) on disposal of fixed assets	(7)	262	(231)	(386)	(263)
Equity compensation	(2,677)	(941)	(634)	(1,321)	(64)
Payment of interest on employee note with stock			4	5	
Cumulative effect of changes in accounting principles				(7,040)	
Impairment of intangible assets of OptoForm Sarl assets				(847)	
Changes in operating assets and liabilities, net	(7,184)	18,493	7,723	(6,444)	(14,921)
Interest expense	1,645	1,755	2,490	2,990	2,636
Income tax expense (benefit)	2,179	(1,691)	1,061	1,107	8,909
EBITDA	$ (18,927)	$ 15,399	$ 13,527	$ (13,499)	$ 6,581
Less: depreciation and amortization	(6,529)	(5,926)	(6,956)	(8,427)	(9,902)
EBIT	$ (25,456)	$ 9,473	$ 6,571	$ (21,926)	$ (3,321)

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 also the sections entitled Forward-Looking Statements and Cautionary Statements and Risk Factors below.

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. More information about potential factors that could affect our business, results of operations and financial condition is included in the section entitled Cautionary Statements and Risk Factors below.

Table of Contents

Overview

We design, develop, manufacture, market and service rapid 3-D printing, 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 Printing and Rapid Manufacturing, we are working to build a business model that can provide sustained growth, that has predictable performance characteristics and performance of 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 s 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

Table of Contents

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 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.

2006 Results

As discussed above, on February 2, 2007, we issued financial information related to the restatement of our financial statements as of and for the years ended December 31, 2005 and 2004. All of the financial information and discussion set forth below reflects the effects of the restatements on the periods presented. For a discussion of the effects of the restatements on financial information that was previously reported for the periods discussed below, see Note 3 to the Consolidated Financial Statements and the discussion that appears below in this Management s Discussion and Analysis titled Restatement of Financial Statements.

For 2006, consolidated revenue decreased 3.1% to $134.8 million from $139.1 million in 2005, as restated, primarily due to lower revenue from systems and services that more than offset higher revenue from materials, after consolidated revenue increased in 2005 from $125.6 million in 2004, as restated, due to higher revenue from systems and materials.

Revenue from materials increased in each of 2006 and 2005 compared to the immediately preceding year. Revenue from materials in 2006 was $52.1 million compared to $44.6 million in 2005 and $38.0 million in 2004. Revenue from materials reached a record high in 2006.

Revenue from systems and other products decreased to $46.5 million in 2006 from $55.1 million in 2005. Revenue from systems in 2006 and 2004 was comparable. The decline in systems revenue in 2006 resulted primarily from the disruptions we experienced beginning in the second quarter of 2006 from the launch of our new ERP system, the outsourcing of our warehousing and logistics functions, systems stability issues and resource constraints as discussed above. The effect of these disruptions lessened in the third and fourth quarters of 2006.

Revenue from services decreased in each of 2006 and 2005 compared to the immediately preceding year. Revenue from services was $36.3 million in 2006 compared with $39.3 million in 2005 and $41.4 million in 2004.

On a geographic basis in 2006, revenue from European operations increased 6.4% to $53.9 million while revenue from U.S. operations declined 10.4% to $58.6 million and revenue from Asia-Pacific operations declined 3.1%, in each case compared with 2005.

We recorded a $25.7 million loss from operations in 2006 compared to $8.4 million of operating income in 2005 and $6.1 million of operating income in 2004.

We recorded a $30.7 million net loss available to common stockholders in 2006, which includes the $2.5 million non-cash effect of the elimination of the net deferred income tax asset described below, compared to $7.7 million of net income available to common stockholders in 2005, which includes the $2.5 million tax benefit from the reduction in 2005 of the valuation allowance maintained with respect to our deferred income tax assets, and $1.5 million of net income available to common stockholders in 2004.

Although backlog has historically not been a significant factor in our business, reflecting our relatively short production and delivery lead times, we had approximately $5.0 million of booked orders outstanding at December 31, 2006, primarily for systems, all of which we expect to ship in 2007, compared to approximately $6.8 million of booked orders outstanding at December 31, 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

Table of Contents

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. However, as noted above, production and delivery of our systems is generally not characterized by long lead times, and backlog is therefore generally not a material factor in our business.

Significant 2006 Developments

During 2006, we engaged in several major projects that we expect to create long-term benefits. These include:

The implementation of our new ERP system;

The outsourcing of our spare-parts and certain of our finished goods supply activities to a third-party logistics management company in the U.S. and Europe;

The relocation of our corporate headquarters and principal research and development facilities to Rock Hill, South Carolina;

The establishment of an internal, centralized shared-service center in Europe, which commenced operation in conjunction with the implementation of our new ERP system in Europe in the second quarter of 2006; and

The completion of the transfer of our InVision® materials production line to our facility in Marly, Switzerland which commenced operations in the first quarter of 2006.

Beginning in the second quarter of 2006, we experienced business disruptions and adverse business and financial 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 the logistics management company mentioned above. These matters adversely affected our revenue, operating results, cash flow and working capital management beginning in the second quarter of 2006, and these adverse effects continued to a lesser extent to affect our operations and financial performance in the remainder of 2006. These effects are discussed in greater detail below.

As we prepared our financial statements for the period ended September 30, 2006, we discovered errors in our financial statements for several prior periods. These errors ultimately led to the restatement of our financial statements for 2004 and 2005 and for the first two quarters of 2006 as discussed below and in Note 3 to the Consolidated Financial Statements.

As a result of the disruptions resulting from the implementation of our ERP system, our supply chain staffing issues, our outsourcing activities and the discovery of these errors in our financial statements, we determined and disclosed in connection with the preparation of our Quarterly Reports on Form 10-Q for the second and third quarters of 2006 that deficiencies exist relating to the design and implementation of our internal controls with respect to the following matters:

The timeliness and accuracy of our period-end financial statement closing process and our procedures for reconciling and compiling financial records;

Our processing and safeguarding of inventory;

Our invoicing and processing of accounts receivable and applying customer payments; and

The timeliness and accuracy of our monitoring of our accounting function and oversight of financial controls.

Table of Contents

In the course of conducting our review of the effectiveness of our internal control over financial reporting at December 31, 2006, we identified the following additional deficiencies that we consider, either individually or in the aggregate with the deficiencies noted above, to constitute material weaknesses:

A weakness arising from the need to replace certain of our foreign financial controllers;

A weakness relating to the use of spreadsheets in the preparation of our Consolidated Financial Statements;

A weakness relating to the process for the timely calculation and documentation of certain foreign income tax provisions and deferred income tax assets; and

A weakness related to control of access to the databases in our new ERP system.

We believe that the foregoing deficiencies that we have identified constitute individually or in the aggregate material weaknesses in our internal control over financial reporting. See Part II, Item 9A, Controls and Procedures below.

We are continuing to work diligently to identify and remedy all sources of the problems with our internal controls, and we believe that we have identified the primary causes of and have taken appropriate remedial actions for these problems. As a result of our efforts, we believe the financial statements included herein have been prepared in accordance with generally accepted accounting principles, fairly present in all material respects our financial position, results of operations and cash flows for the periods presented and are free of material errors.

During 2006, we also experienced some growing pains as our initial success in the fourth quarter of 2005 and the first quarter of 2006 in placing our newly introduced Sinterstation® Pro, Viper™ Pro and 3-D Printing systems stretched our field engineering resources and presented some stability issues with certain installed systems.

For additional information regarding our ERP implementation, our logistics and warehousing, our new systems and our relocation project, please see Item 1, Business Significant 2006 Developments above.

Restatement of Financial Statements

On February 2, 2007, we issued financial information related to the restatement of our financial statements as of and for the years ended December 31, 2005 and 2004 when we filed our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006. Such restated consolidated financial information is set forth in Note 3 to the Consolidated Financial Statements.

We identified the errors in our prior-period financial statements that led to these restatements in the third quarter of 2006 and evaluated and corrected those errors through adjustments reflected in the restated historical Consolidated Financial Statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. We also assessed on a quarterly basis the materiality of prior-period misstatements that were previously identified but not corrected because they were originally considered not to be material. The restated financial information reflects adjustments to correct or record all such previously unadjusted amounts.

The errors and previously unrecorded audit adjustments that we identified and corrected in these restatements included the following:

Errors in the invoicing and recording of customer billings, in the application of customer payments and in the reconciliation of customer accounts that were corrected by the issuance and recording of credit memoranda for the benefit of customers for product returns, pricing adjustments, changes to service contracts, freight-related matters and other similar matters.

Errors related to the timing of recognition of royalty income and expense.

Errors related to the timing of the recognition of warranty and training revenue.

Table of Contents

Errors related to securities issuance costs that arose as a result of expensing such costs rather than applying such costs against the net proceeds of sale of the related securities.

Errors related to prepaid materials that arose from the incomplete reconciliation of such accounts between the sub-ledger and the general ledger for the affected periods.

Errors related to the failure to record depreciation expense for assets that had been placed in service but which remained recorded in the Company s construction-in-progress (CIP) accounts.

Errors related to the timing of expenses for certain unrelated third party professional services.

Errors related to accounts payable that arose from the incomplete reconciliation of such accounts between the sub-ledger and the general ledger for each applicable period.

Errors related to inventory usage that arose from variances identified between actual and recorded inventory values following the Company s conducting physical inventory counts to test the accuracy of the recorded inventory data.

Errors related to hedging activities for foreign currency transactions that arose from mechanical errors in accumulating spreadsheet data as well as the recording of net unrealized losses on foreign exchange hedges that had previously been excluded from the Consolidated Statement of Operations.

Errors related to foreign income tax expense that relate to a previously identified adjustment related to periods prior to 2004 but that was not deemed material to those periods.

This Annual Report on Form 10-K includes all of the restated financial information for each financial period that is reported in this Form 10-K and that was affected by the restatement. Except for the goodwill and related adjustments discussed in the paragraphs below, that information is also included in Quarterly Reports on Form 10-Q for the quarterly period ended September 30, 2006 and on Form 10-Q/A for the quarterly periods ended March 31, 2006 and June 30, 2006 that we have previously filed with the SEC.

In September 2001, we acquired our Swiss subsidiary 3D Systems S.A., a manufacturer and developer of stereolithography and other materials. We recorded and maintained goodwill related to this acquisition in U.S. dollars on our balance sheet rather than in Swiss francs, the functional currency of our Swiss subsidiary, on its balance sheet as required by generally accepted accounting principles. If we had correctly recorded this goodwill on the subsidiary s balance sheet at the time of the acquisition, the related foreign currency translation effects would have resulted in periodic adjustments to goodwill and to stockholders equity on our Consolidated Balance Sheets for the years ended December 31, 2001 through December 31, 2006, which adjustments would have arisen from changes in other comprehensive income (loss) in each year.

We corrected this error and the restated financial information included in this Form 10-K reflects adjustments to correct the previously unadjusted amounts of goodwill, stockholders equity and other comprehensive income (loss) for each year ended on or before December 31, 2006. Neither this error nor its correction had any effect on net income (loss) reported for any period on our Consolidated Statements of Operations. As of 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.

Table of Contents

The following table shows the impact of the correction of all errors on income available to common stockholders for the full years ended December 31, 2005 and December 31, 2004, as well as the cumulative impact of prior-period errors on our accumulated deficit in earnings at December 31, 2003. This table does not include the effect of the correction of the error in recording goodwill of our Swiss subsidiary as that error did not affect income available to common stockholders or our accumulated deficit in earnings in any year. The tax effect of the correction of these errors on each restated period was either minimal or nil.

Table 1

	Effect of Restatement on Income (Loss) Available to Common Stockholders		Accumulated Deficit
	Year Ended December 31, 2005	Year Ended December 31, 2004	in Earnings December 31, 2003
	(amounts in thousands, except per share amounts)		
Previously reported	$ 8,404	$ 1,027	$ (47,442)
Adjustments:			
Credit memos	(363)	10	
Royalty income/expense	(322)	253	
Recognition of warranty and training revenue	(189)	220	32
Securities issuance costs	211		
Prepaid materials reconciliation	(97)		
Depreciation of fixed assets	(161)	(4)	
Accrual for professional services	(15)		
Inventory usage	22		
Other	46	(20)	
Tax provision	191		(191)
Total adjustments	(677)	459	(159)
Restated	$ 7,727	$ 1,486	$ (47,601)
Net income available to common stockholders per share diluted (as previously reported)	$ 0.53	$ 0.07	
Effect of restatement	(0.05)	0.04	
Net income available to common stockholders per share diluted (restated)	$ 0.48	$ 0.11	

Impact of Restatement on 2005 Consolidated Financial Statements

As a result of the errors that we identified at the end of the third quarter of 2006 and our evaluation of the impact on 2005 of the audit adjustments for periods prior to 2006 that we had previously considered not to be material, we

restated our Consolidated Financial Statements for each calendar quarter in 2005 and for the year ended December 31, 2005. See Note 25 to the Consolidated Financial Statements.

For the year ended December 31, 2005, the effect of the restatement on our operating results was as follows:

Total revenue decreased by $0.6 million from $139.7 million as originally reported to $139.1 million as restated;

Total cost of sales increased by $0.4 million from $76.5 million as originally reported to $76.9 million as restated;

Total operating expenses decreased nominally;

Table of Contents

Income from operations decreased by $0.9 million from $9.3 million as originally reported to $8.4 million as restated; and

Income available to common stockholders decreased by $0.7 million from $8.4 million as originally reported to $7.7 million as restated.

Consolidated Statement of Operations. Table 2 and the accompanying text show the effect of the restatement on our Consolidated Statement of Operations for the year ended December 31, 2005.

Table 2

Changes in Consolidated Statement of Operations	Year Ended December 31, 2005 Restatement Increase/(Decrease) (amounts in $000s)
Revenue	$ (592)
Cost of sales	376
Gross profit	(968)
Operating expenses	(38)
Operating income	(930)
Interest and other expense, net	(62)
Income before income taxes	(868)
Income tax provision (benefit)	(191)
Net income	$ (677)

The changes in our operating results for 2005 arising out of the restatement primarily related to the following:

The decrease in revenue was due to $0.4 million of adjustments for credit memoranda for customers and $0.2 million of adjustments related to amortization for warranty and training revenue, which adjustments arose out of the errors discussed above.

The $0.4 million increase in cost of sales was primarily the result of the correction of the recognition of royalty expense.

The nominal decrease in operating expenses resulted from additional depreciation expense that was recorded for assets placed in service and accruals of professional fees that were more than offset by corrections made to record securities issuance costs as a reduction of additional paid-in capital.

The change to interest and other expense, net related to an increase in interest income.

The income tax benefit related to the correction of a foreign income tax provision in 2005 that was applicable to prior periods.

Consolidated Balance Sheet. Table 3 and the accompanying text show the impact of the restatement on the line items in our Consolidated Balance Sheet at December 31, 2005.

Table of Contents

Table 3

Changes in Consolidated Balance Sheet		December 31, 2005 Restatement Increase/(Decrease) (amounts in $000s)
Current assets:		
Cash and cash equivalents	$	216
Accounts receivable		(406)
Inventories		850
Prepaid expenses and other current assets		(32)
Deposits		(216)
Total current assets		412
Other assets:		
Property and equipment, net		(174)
Goodwill		1,324
Intangible assets, net		587
Other assets, net		(587)
		1,150
Total assets	$	1,562
Current liabilities:		
Current portion of long-term debt	$	
Accounts payable		735
Accrued liabilities		142
Deferred revenue		(43)
Total current liabilities		834
Other liabilities:		
Long-term debt, less current portion		0
Other liabilities		(8)
Total other liabilities		(8)
Stockholders equity		736
Total liabilities and stockholder s equity	$	1,562

The changes arising from the restatement primarily relate to the following:

The $0.2 million increase in cash and cash equivalents resulted from the correction of a previous error in the classification of unrestricted cash as deposits.

The $0.4 million decrease in accounts receivable primarily related to adjustments for credit memoranda for customers that were applicable to the period.

The $0.9 million increase in inventory primarily related to an increase in the accrual for inventory in transit from our suppliers where title had passed at year end.

The $0.2 million decrease in deposits relates to the reclassification of amounts from deposits to cash and cash equivalents discussed above.

The $0.6 million increase in intangible assets, net and the corresponding decrease in other assets, net were primarily the result of a reclassification of amounts between the two line items on the balance sheet.

Table of Contents

The $1.3 million increase in goodwill reflects the effect in 2005 of foreign currency translation between the Swiss franc and the U.S. dollar arising from the accounting for goodwill in the acquisition of our Swiss subsidiary.

The $0.7 million increase in stockholders equity reflects the $1.3 million cumulative increase in other comprehensive income, partially offset by a $0.2 million reduction of additional paid-in capital and a $0.4 million increase in the deficit in earnings.

The $0.7 million increase in accounts payable was primarily a result of reconciliation adjustments between the accounts payable sub-ledgers and the general ledger as a result of our conversion to our new ERP system.

The $0.1 million increase in accrued liabilities primarily relates to an adjustment to properly record the net unrealized loss on foreign currency hedging contracts.

Other changes to the balance sheet line items at December 31, 2005 periods were not material, individually or in the aggregate. Such changes included miscellaneous adjustments to inventories, additional depreciation expense for items placed in service which had not been depreciated prior to restatement and miscellaneous reconciliation adjustments.

Consolidated Statement of Cash Flows. As discussed above, the restatement of our 2005 financial statements resulted in a $0.2 million increase in cash and cash equivalents as of December 31, 2005 that resulted from the reclassifications of cash and cash equivalents within the balance sheet discussed above. Table 4 sets forth the impact of the restatement on our Consolidated Statement of Cash Flows for the year ended December 31, 2005.

Table 4

Changes in Consolidated Statement of Cash Flows		**Year Ended December 31, 2005 Restatement Increase/(Decrease) (amounts in $000s)**
Net income	$	(6771)
Non-cash operating items		162
Changes to operating accounts		563
Net cash provided by (used in) operating activities		48
Cash provided by (used in) investing activities		177
Cash provided by financing activities		(211)
Effects of exchange rate changes on cash		(27)
Net increase (decrease) in cash and cash equivalents		(13)
Cash and cash equivalents, beginning of period		229
Cash and cash equivalents, end of period	$	216

For the year ended December 31, 2005, on a restated basis:

The nominal increase in net cash provided by operating activities for the year primarily related to the $0.7 million reduction in net income for the year reflected in our 2005 restated Consolidated Statement of Operations that was more than offset by cash generated from $0.6 million of changes to operating accounts and a $0.2 million increase in depreciation and other non-cash items. The changes in operating accounts were primarily due to changes in accounts receivable, inventories, accounts payable, accrued liabilities and deferred revenue reflected on our 2005 restated Consolidated Balance Sheet.

The $0.2 million decrease in net cash used in investing activities for the year related to a $0.1 million reduction in purchases of property and equipment and the $0.1 million reduction in software development costs reflected in property and equipment on our 2005 restated Consolidated Balance Sheet.

Table of Contents

The nominal increase in net cash provided by operating activities was offset by a $0.2 million decrease in net cash provided by financing activities resulting from a decrease in securities issuance costs included in those cash flows that were charged to additional paid-in capital in the restatement.

Impact of the Restatement on 2004 Consolidated Financial Statements

As a result of the errors that we identified at the end of the third quarter of 2006 and our evaluation of the impact on 2004 of the audit adjustments for periods prior to 2006 that we had previously considered not to be material, we restated our Consolidated Financial Statements for the year ended December 31, 2004.

Consolidated Statement of Operations. Table 5 and the accompanying text show the effect of the restatement on our Consolidated Statement of Operations for the year ended December 31, 2004.

Table 5

Changes in Consolidated Statement of Operations	**Year Ended December 31, 2004 Restatement Increase/(Decrease) (amounts in $000s)**
Revenue	$ 231
Cost of sales	(234)
Gross profit	465
Operating expenses	4
Operating income	461
Interest and other expense, net	2
Income before income taxes	459
Income tax provision (benefit)	
Net income	$ 459

The changes in our operating results in 2004 arising out of the restatement primarily related to the following:

The $0.2 million increase in revenue was primarily related to a $0.2 million adjustment of amortization for warranty and training revenue.

The $0.2 million decrease in the cost of sales was primarily related to a $0.3 million adjustment of royalty expense that was overstated in 2004 and understated in 2005.

As a result of these changes, net income increased by $0.5 million.

Consolidated Balance Sheet. Table 6 and the accompanying text shows the impact of the restatement on our 2004 Consolidated Balance Sheet line items.

Table of Contents

Table 6

Changes in Consolidated Balance Sheet	December 31, 2004 Restatement Increase/(Decrease) (amounts in $000s)
Current assets:	
Cash and cash equivalents	$ 229