3D SYSTEMS CORP
Form 10-Q
November 10, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from ____________to____________

Commission File No. 001-34220

3D SYSTEMS CORPORATION

(Exact name of Registrant as specified in its Charter)

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Shares of Common Stock, par value $0.001, outstanding as of November 5, 2014: 111,217,093

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3D SYSTEMS CORPORATION

Quarterly Report on Form 10-Q for the

Quarter Ended September 30, 2014

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PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements.

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except par value)	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 377,335	$ 306,316
Accounts receivable, net of allowance for doubtful accounts of $12,824 (2014) and $8,133 (2013)	155,543	132,121
Inventories, net	104,888	75,148
Prepaid expenses and other current assets	14,398	7,203
Current deferred income tax asset	14,814	6,067
Total current assets	666,978	526,855
Property and equipment, net	78,734	45,208
Intangible assets, net	228,339	141,709
Goodwill	515,014	370,066
Long term deferred income tax asset	1,174	548
Other assets, net	13,002	13,470
Total assets	$ 1,503,241	$ 1,097,856
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt and capitalized lease obligations	$ 777	$ 187
Accounts payable	57,130	51,729
Accrued and other liabilities	36,162	28,430
Customer deposits	6,953	5,466
Deferred revenue	28,732	24,644
Total current liabilities	129,754	110,456
Long term portion of capitalized lease obligations	9,117	7,277
Convertible senior notes, net	—	11,416
Long term deferred income tax liability	36,081	19,714

Other liabilities	24,861	15,201
Total liabilities	199,813	164,064
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $0.001 par value, authorized 220,000 shares; issued 111,924 (2014) and 103,818 (2013)	112	104
Additional paid-in capital	1,235,315	866,552
Treasury stock, at cost: 691 shares (2014) and 600 shares (2013)	(358)	(286)
Accumulated earnings	70,573	60,487
Accumulated other comprehensive income (loss)	(3,267)	5,789
Total 3D Systems Corporation stockholders' equity	1,302,375	932,646
Noncontrolling interest	1,053	1,146
Total stockholders’ equity	1,303,428	933,792
Total liabilities and stockholders’ equity	$ 1,503,241	$ 1,097,856

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2014	2013	2014	2013
Revenue:				
Products	$ 111,926	$ 93,020	$ 313,104	$ 244,937
Services	55,018	42,697	153,110	113,646
Total revenue	166,944	135,717	466,214	358,583
Cost of sales:				
Products	57,627	41,609	155,675	108,569
Services	29,519	22,671	82,871	62,517
Total cost of sales	87,146	64,280	238,546	171,086
Gross profit	79,798	71,437	227,668	187,497
Operating expenses:				
Selling, general and administrative	53,656	32,054	152,698	97,697
Research and development	17,934	10,813	52,883	26,915
Total operating expenses	71,590	42,867	205,581	124,612
Income from operations	8,208	28,570	22,087	62,885
Interest and other expense, net	3,955	2,651	6,479	15,380
Income before income taxes	4,253	25,919	15,608	47,505
Provision for income taxes	1,113	8,279	5,366	14,639
Net income	3,140	17,640	10,242	32,866
Net (income) loss attributable to noncontrolling interest	(56)	17	(156)	17
Net income attributable to 3D Systems Corporation	$ 3,084	$ 17,657	$ 10,086	$ 32,883
Other comprehensive income (loss):				
Pension adjustments, net of taxes	$ 91	$ 6	$ 136	$ 22
Foreign currency translation gain (loss) attributable to 3D Systems Corporation	(10,824)	5,821	(9,192)	100
Total other comprehensive income (loss)	(10,733)	5,827	(9,056)	122
Comprehensive income (loss)	(7,649)	23,484	1,030	33,005
Foreign currency translation loss attributable to noncontrolling interest	73	—	71	—
	$ (7,576)	$ 23,484	$ 1,101	$ 33,005

Comprehensive income (loss) attributable to 3D Systems Corporation				
Net income per share available to 3D Systems Corporation common stockholders — basic and diluted	$ 0.03	$ 0.17	$ 0.09	$ 0.34

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,			
(in thousands)		2014		2013
Cash flows from operating activities:				
Net income	$	10,242	$	32,866
Adjustments to reconcile net income to net cash provided by operating activities:				
Benefit of deferred income taxes		(19,113)		(4,274)
Depreciation and amortization		39,563		22,086
Non-cash interest on convertible notes		224		880
Provision for bad debts		4,394		3,254
Stock-based compensation		23,738		8,464
Loss on the disposition of property and equipment		176		133
Deferred interest income		—		(1,018)
Loss on conversion of convertible debt		1,806		11,275
Changes in operating accounts:				
Accounts receivable		(40,347)		(25,962)
Inventories		(38,036)		(21,752)
Prepaid expenses and other current assets		(6,725)		(4,695)
Accounts payable		11,925		6,439
Accrued and other liabilities		8,254		(75)
Customer deposits		1,848		1,256
Deferred revenue		5,813		4,282

Other operating assets and liabilities		24,136		(4,637)
Net cash provided by operating activities		27,898		28,522
Cash flows from investing activities:				
Purchases of property and equipment		(16,783)		(5,728)
Additions to license and patent costs		(547)		(1,502)
Proceeds from disposition of property and equipment		—		1,882
Cash paid for acquisitions, net of cash assumed		(244,290)		(113,069)
Other investing activities		(300)		(4,101)
Net cash used in investing activities		(261,920)		(122,518)
Cash flows from financing activities:				
Tax benefits from share-based payment arrangements		6,870		15,913
Proceeds from issuance of common stock		299,729		272,116
Proceeds from exercise of stock options and restricted stock, net		1,603		545
Cash disbursed in lieu of fractional shares related to stock split		—		(177)
Repayment of capital lease obligations		(317)		(3,680)
Net cash provided by financing activities		307,885		284,717
Effect of exchange rate changes on cash		(2,844)		(1,224)
Net increase in cash and cash equivalents		71,019		189,497
Cash and cash equivalents at the beginning of the period		306,316		155,859
Cash and cash equivalents at the end of the period	$	377,335	$	345,356
Interest payments	$	1,345	$	1,110
Income tax payments		12,654		3,165
Transfer of equipment from inventory to property and equipment,		9,530		3,167

net (a)		
Transfer of equipment to inventory from property and equipment, net (b)	4,875	677
Stock issued for acquisitions of businesses	24,625	7,250
Notes redeemed for shares of common stock	12,540	78,420

(a) Inventory is transferred from inventory to property and equipment at cost when the Company requires additional machines for training or demonstration or for placement into Quickparts' locations.

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

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

	Common Stock			Treasury Stock						
(In thousands, except par value)	Shares	Par Value $0.001	Additional Paid In Capital	Shares	Amount	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total 3D Systems Corporation Stockholders' Equity	Equity Attributable to Noncontrolling Interest	Total Stockholders' Equity
Balance at December 31, 2013	103,818	$ 104	$ 866,552	600	$ (286)	$ 60,487	$ 5,789	$ 932,646	$ 1,146	$ 933,792
Tax benefits from share-based payment arrangements	—	—	6,870	—	—	—	—	6,870	—	6,870
Issuance (repurchase) of restricted stock, net	843	1	1,674	91	(72)	—	—	1,603	—	1,603
Issuance of stock for 5.5% convertible notes, tax effected	877	1	12,133	—	—	—	—	12,134	—	12,134
Issuance of stock for acquisitions	436	—	24,625	—	—	—	—	24,625	—	24,625
Issuance of stock for equity raise	5,950	6	299,723	—	—	—	—	299,729	—	299,729
Stock-based compensation expense	—	—	23,738	—	—	—	—	23,738	—	23,738

Net income	—	—	—	—	—	10,086	—	10,086	156	10,242
Noncontrolling interest for business combinations	—	—	—	—	—	—	—	—	(178)	(178)
Pension adjustment	—	—	—	—	—	—	136	136	—	136
Foreign currency translation adjustment	—	—	—	—	—	—	(9,192)	(9,192)	(71)	(9,263)
Balance at September 30, 2014	111,924	$ 112	$ 1,235,315	691	$ (358)	$ 70,573	$ (3,267) (a)	$ 1,302,375	$ 1,053	$ 1,303,4

(a) Accumulated other comprehensive loss of $3,267 consists of foreign currency translation loss of $2,500, a $173 gain on the liquidation of a non-US entity and a cumulative unrealized pension loss of $940.

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of 3D Systems Corporation and its subsidiaries (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim reports. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2013.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the quarter and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

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

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

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

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-12, Compensation – Stock Compensation ("ASU 2014-12"). ASU 2014-12 is intended to resolve diverse accounting treatment for share based awards in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 and may be applied prospectively or retrospectively. The Company does not expect adoption of this standard will have a significant impact on the Company's consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements – Going Concern ("ASU 2014-15"). ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and if those conditions exist, the required disclosures. The standard is effective for annual periods ending after December 15, 2016, and interim periods therein. The Company does not expect adoption of this standard will have a significant impact on the Company's consolidated financial statements.

No other accounting pronouncements, issued or effective during the third quarter of 2014, have had or are expected to have a significant impact on the Company's consolidated financial statements.

(2) Acquisitions

The Company completed five acquisitions in the third quarter of 2014, which are discussed below.

On August 6, 2014, the Company acquired certain assets of Bordner and Associates, Inc. d/b/a Laser Reproductions ("Laser Reproductions"). Laser Reproductions, based in Ohio, is a provider of advanced manufacturing, tooling and rapid prototyping solutions. The fair value of the consideration paid for this acquisition, net of cash acquired, was $17,450, of which $13,075 was paid in cash and $4,375 was paid in shares of the Company's common stock. These shares were issued in a private transaction exempt from registration under the Securities Act of 1933. The operations of Laser Reproductions have been integrated into the Company's service revenues. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below, which summarizes third quarter 2014 acquisitions. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

On August 13, 2014, the Company acquired certain assets of sister companies American Precision Machining, L.L.C. ("APM") and American Precision Prototyping, LLC ("APP"), based in Oklahoma. APM and APP are providers of precision machining and manufacturing services and 3D printing services. The fair value of the consideration paid for these acquisitions, net of cash acquired, was $14,089, all of which was paid in cash. The operations of APM and APP have been integrated into the Company's service revenues. The fair value of the consideration paid for these acquisitions was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below, which summarizes third quarter 2014 acquisitions. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

On August 28, 2014, the Company acquired 100% of the outstanding shares and voting rights of Simbionix USA Corporation ("Simbionix"). Headquartered in Cleveland, Ohio, with a research and development center in Israel, Simbionix is a provider of patient-specific surgical simulation solutions. The fair value of the consideration paid for this acquisition, net of cash acquired, was $121,562, all of which was paid in cash. The operations of Simbionix have been integrated into the Company's products and service revenues. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below, which summarizes third quarter 2014 acquisitions. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

On September 3, 2014, the Company acquired 100% of the outstanding shares and voting rights of LayerWise NV ("LayerWise"), based in Belgium. LayerWise is a provider of advanced direct metal 3D printing and manufacturing services and delivers quick-turn, 3D-printed metal parts, manufactured on its own proprietary line of direct metal 3D printers, for aerospace, high-precision equipment, and medical and dental customers. The fair value of the consideration paid for this acquisition, net of cash acquired, was $41,933, all of which was paid in cash. The operations of LayerWise have been integrated into the Company's service revenues. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below, which summarizes third quarter 2014 acquisitions. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

The acquisitions completed in the third quarter are not material relative to the Company's assets or operating results; therefore, no proforma financial information is provided.

The Company's purchase price allocation for the acquired companies is preliminary and subject to revision as more detailed analyses are completed and additional information about the fair value of assets and liabilities becomes available. The amounts related to the acquisitions are allocated to the assets acquired and the liabilities assumed and are included in the Company's unaudited condensed consolidated balance sheet at September 30, 2014 as follows:

(in thousands)	2014
Fixed assets	$ 16,486
Other intangible assets, net	47,878
Goodwill	132,986
Other assets, net of cash acquired	28,156
Liabilities	(30,472)
Net assets acquired	$ 195,034

Pending Acquisition

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

(3) Inventories

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

(in thousands)	2014	2013
Raw materials	$ 54,853	$ 34,144
Work in process	2,825	3,050
Finished goods and parts	47,210	37,954
Inventories, net	$ 104,888	$ 75,148

(4) Property and Equipment

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

(in thousands)	2014	2013	Useful Life (in years)
Land	$ 541	$ 541	N/A
Building	9,315	9,315	25
Machinery and equipment	84,083	56,962	3-7
Capitalized software	4,026	3,872	5
Office furniture and equipment	4,081	3,586	5
Leasehold improvements	12,191	9,395	Life of lease (a)
Rental equipment	582	—	5
Construction in progress	15,136	4,014	N/A
Total property and equipment	129,955	87,685	
Less: Accumulated depreciation and amortization	(51,221)	(42,477)	

Total property and equipment, net	$ 78,734	$ 45,208

[a] Leasehold improvements are amortized on a straight-line basis over the shorter of (i) their estimated useful lives and (ii) the estimated or contractual life of the related lease.

Depreciation and amortization expense on property and equipment for the quarter and nine months ended September 30, 2014 was $3,828 and $10,320, respectively, compared to $2,552 and $6,984, respectively, for the quarter and nine months ended September 30, 2013.

(5) Intangible Assets

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

	2014			2013				
(in thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net	Useful Life (in years)	Weighted Average Useful Life Remaining (in years)
Intangible assets with finite lives:								
Licenses	$ 5,875	$ (5,875)	$ —	$ 5,875	$ (5,875)	$ —		
Patent costs	22,009	(7,519)	14,490	21,545	(5,960)	15,585	6 - 7	3
Acquired technology	60,596	(16,417)	44,179	30,095	(13,615)	16,480	5 - 10	5
Internally developed software	17,851	(13,934)	3,917	18,097	(12,863)	5,234	5	<1
Customer relationships	133,077	(33,708)	99,369	95,793	(18,283)	77,510	5 - 13	5
Non-compete agreements	35,087	(10,457)	24,630	16,848	(6,666)	10,182	3 - 11	3
Trade names	21,193	(4,174)	17,019	9,302	(2,211)	7,091	2 - 10	3
Other	28,149	(5,524)	22,625	11,598	(4,081)	7,517	<1 - 7	2
Intangibles with indefinite lives:								
Trademarks	2,110	—	2,110	2,110	—	2,110	N/A	N/A
Total intangible assets	$ 325,947	$ (97,608)	$ 228,339	$ 211,263	$ (69,554)	$ 141,709	<1 - 13	4

For the nine months ended September 30, 2014 and 2013, the Company capitalized $547 and $1,502, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

Amortization expense for intangible assets for the quarter and nine months ended September 30, 2014 was $11,096 and $28,510, respectively, compared to $6,206 and $15,102, respectively, for the quarter and nine months ended September 30, 2013.

Annual amortization expense for intangible assets for 2014, 2015, 2016, 2017 and 2018 is expected to be $41,878, $29,631, $26,573, $23,617 and $18,567, respectively.

(6) Accrued and Other Liabilities

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

(in thousands)	2014	2013
Compensation and benefits	$ 19,610	$ 13,197
Vendor accruals	5,236	5,449
Accrued professional fees	598	493
Accrued taxes	6,956	1,834
Royalties payable	1,528	750
Accrued interest	43	73
Accrued earnouts related to acquisitions	194	5,872
Accrued other	1,997	762
Total	$ 36,162	$ 28,430

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

(in thousands)	2014	2013
Defined benefit pension obligation	$ 5,426	$ 5,861
Long term tax liability	90	90
Long term earnouts related to acquisitions	8,744	4,206
Long term deferred revenue	6,162	4,218
Other long term liabilities	4,439	826
Total	$ 24,861	$ 15,201

(7) Hedging Activities and Financial Instruments

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

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

The total impact of foreign currency transactions on the condensed consolidated statements of operations and comprehensive income (loss) for the quarter and nine months ended September 30, 2014 reflected a loss of $1,740 and a loss of $3,085, respectively, compared to a gain of $505 and a loss of $258, respectively, for the quarter and nine months ended September 30, 2013.

(8) Borrowings

5.5% senior convertible notes

In November 2011, the Company issued $152,000 of 5.50% senior convertible notes due December 2016. The notes were issued with an effective yield of 5.96% based upon an original issue discount at 98.0%. The net proceeds from the issuance of these notes, after deducting original issue discount and capitalized issuance costs of $6,634, amounted to $145,366.

During the third quarter of 2014, the remaining $12,540 of outstanding notes were converted, reflecting a loss of $1,806 for the quarter and nine months ended September 30, 2014, compared to losses of $2,022 and $11,275, respectively, for the quarter and nine months ended September 30, 2013. As of September 30, 2014, there is no outstanding balance for the notes.

Other debt

In connection with its acquisition of LayerWise, the Company assumed a portion of LayerWise's outstanding bank debt, consisting of $1,427 of revolving credit facilities and $240 in term loans. The term loans bear interest at rates ranging from 1.34% to 5.40% as of September 30, 2014. The outstanding balance on the term loans was $223, as of September 30, 2014, all of which was current. There were no borrowings outstanding under the revolving credit facilities as of September 30, 2014. There is a 0.125% commitment fee on the unused portion of the facilities.

(9) Stock-based Compensation Plans

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). Stock-based compensation expense for the quarter and nine months ended September 30, 2014 and 2013 was as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Restricted stock awards	$ 8,100	$ 3,118	$ 23,738	$ 8,464

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

	Quarter Ended September 30,			
	2014		2013	
(in thousands, except per share amounts)	Shares Awarded	Weighted Average Fair Value	Shares Awarded	Weighted Average Fair Value
Restricted stock awards:				
Granted under the 2004 Incentive Stock Plan	88	$ 52.73	96	$ 49.35
Granted under the 2004 Restricted Stock Plan for Non-Employee Directors	—	—	3	47.12
Total restricted stock awards	88	$ 52.73	99	$ 49.29

	Nine Months Ended September 30,			
	2014		2013	
(in thousands, except per share amounts)	Shares Awarded	Weighted Average Fair Value	Shares Awarded	Weighted Average Fair Value
Restricted stock awards:				
Granted under the 2004 Incentive Stock Plan	464	$ 65.35	385	$ 41.66
Granted under the 2004 Restricted Stock Plan for Non-Employee Directors	17	49.26	15	48.20
Total restricted stock awards	481	$ 64.78	400	$ 41.91

During the nine months ended September 30, 2014, the Company granted restricted stock awards covering 464 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan. Of the 464 shares granted in the first nine months of 2014, 30 shares were awarded to executive officers of the Company and 35 shares remained subject to acceptance at September 30, 2014. In the first nine months of 2013, the Company granted restricted stock awards covering 385 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan, of which 27 shares were awarded to executive officers of the Company.

In the first nine months of 2014 and 2013, respectively, the Company granted 17 and 15 shares, respectively, of common stock pursuant to the Company's 2004 Restricted Stock Plan for Non-Employee Directors. Stock compensation expense for Non-Employee Directors for the first nine months of 2014 and 2013 was $849 and $727, respectively.

(10) International Retirement Plan

The following table shows the components of net periodic benefit costs and other amounts recognized in the condensed consolidated statements of operations and comprehensive income (loss) for the quarter and nine months ended September 30, 2014 and 2013:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Service cost	$ 38	$ 37	$ 126	$ 84
Interest cost	52	78	174	175
Total	$ 90	$ 115	$ 300	$ 259

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(11) Earnings Per Share

The Company presents basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income attributable to 3D Systems Corporation available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS is calculated by dividing net income by the weighted average number of common and common equivalent shares outstanding during the applicable period.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2014	2013	2014	2013
Numerator:				
Net income attributable to 3D Systems Corporation – numerator for basic net earnings per share	$ 3,084	$ 17,657	$ 10,086	$ 32,883
Add: Effect of dilutive securities				
Interest expense on 5.50% convertible notes (after-tax)	—	—	—	—
Numerator for diluted earnings per share	$ 3,084	$ 17,657	$ 10,086	$ 32,883
Denominator:				
Weighted average shares – denominator for basic net earnings per share	110,737	102,437	106,923	96,874
Add: Effect of dilutive securities				
5.50% convertible notes (after-tax)	—	—	—	—
Denominator for diluted earnings per share	110,737	102,437	106,923	96,874
Earnings per share				
Basic and diluted	$ 0.03	$ 0.17	$ 0.09	$ 0.34
Interest expense excluded from diluted earnings per share calculation (a)	$ —	$ 243	$ 362	$ 1,751
5.50% Convertible notes shares excluded from diluted earnings per share calculation (a)	—	876	584	2,060

(a)

Average outstanding diluted earnings per share calculation excludes shares that may be issued upon conversion of the outstanding senior convertible notes since the effect of their inclusion would have been anti-dilutive.

For the quarter ended September 30, 2014, average common shares for basic and diluted earnings per share were 110,737 and basic and diluted earnings per share were $0.03. For the quarter ended September 30, 2013, average common shares for basic and diluted earnings per share were 102,437 and basic and diluted earnings per share were $0.17.

For the nine months ended September 30, 2014, average common shares for basic and diluted earnings per share were 106,923, and basic and diluted earnings per share were $0.09. For the nine months ended September 30, 2013, average common shares for basic and diluted earnings per share were 96,874 and basic and diluted earnings per share were $0.34.

(12) Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;

- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

· Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For the Company, the above standard applies to cash equivalents and senior convertible notes. The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements as of September 30, 2014			
(in thousands)	Level 1	Level 2	Level 3	Total
Description				
Cash equivalents (a)	$ 278,800	$ —	$ —	$ 278,800

(a) Cash equivalents include funds held in money market instruments and are reported at their current carrying value, which approximates fair value due to the short-term nature of these instruments and are included in cash and cash equivalents in the consolidated balance sheet.

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

In addition to the financial assets included in the above table, certain of our non-financial assets and liabilities are to be initially measured at fair value on a non-recurring basis. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and non-financial, long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets and liabilities including goodwill, other intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when impairment is recognized. The Company has not recorded any impairments related to such assets and has had no other significant non-financial assets or non-financial liabilities requiring adjustments or write-downs to fair value as of September 30, 2014 or December 31, 2013.

(13) Income Taxes

The Company's effective tax rates were 26.2% and 34.4% for the quarter and nine months ended September 30, 2014, respectively, compared to 31.9% and 30.8% for the quarter and nine months ended September 30, 2013.

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

Tax years 2010 to 2013 are subject to examination by the U.S. Internal Revenue Service. The Company has utilized U.S. loss carryforwards causing the years 1997 to 2007 to be subject to examination. The Company files income tax returns (which are open to examination beginning in the year shown in parentheses) in Australia (2009), Belgium (2010), China (2010), France (2011), Germany (2011), India (2012), Israel (2010), Italy (2009), Japan (2007), Korea (2008), Netherlands (2007), Switzerland (2008), and the United Kingdom (2009).

(14) Segment Information

The Company operates in one reportable business segment. The Company conducts its business through subsidiaries in the United States, a subsidiary in Israel that operates a research and production facility and sales and service offices, a subsidiary in Switzerland that operates a research and production facility, subsidiaries in France that operate production facilities and sales and service offices, and sales and service offices operated by other subsidiaries in Europe (Belgium, Germany, the United Kingdom, Italy and the Netherlands) and in Asia-Pacific (Australia, China, India, Japan and Korea). The Company has historically disclosed summarized financial information for the geographic areas of operations as if they were segments in accordance with ASC 280, "Segment Reporting." Financial information concerning the Company's geographical locations is based on the location of the selling entity.

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

(in thousands)	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue from unaffiliated customers:				
Americas	$ 90,992	$ 74,427	$ 237,919	$ 199,450
Germany	19,843	11,039	63,230	36,236
Other EMEA	27,364	21,728	73,556	56,966
Asia Pacific	28,745	28,523	91,509	65,931
Total	$ 166,944	$ 135,717	$ 466,214	$ 358,583

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

(in thousands)	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Products	$ 72,917	$ 59,841	$ 195,618	$ 153,754
Materials	39,009	33,179	117,486	91,183
Services	55,018	42,697	153,110	113,646
Total	$ 166,944	$ 135,717	$ 466,214	$ 358,583

Intercompany sales were as follows:

	Quarter Ended September 30, 2014				
	Intercompany Sales to				
(in thousands)	Americas	Germany	Other EMEA	Asia Pacific	Total

Americas	$ —	$ 10,137	$ 4,512	$ 4,634	$ 19,283
Germany	2,063	—	2,002	8	4,073
Other EMEA	8,713	575	546	156	9,990
Asia Pacific	705	—	—	727	1,432
Total	$ 11,481	$ 10,712	$ 7,060	$ 5,525	$ 34,778

	Quarter Ended September 30, 2013 Intercompany Sales to				
(in thousands)	Americas	Germany	Other EMEA	Asia Pacific	Total
Americas	$ —	$ 5,617	$ 3,186	$ 1,286	$ 10,089
Germany	355	—	794	—	1,149
Other EMEA	7,398	420	347	442	8,607
Asia Pacific	1,732	—	—	492	2,224
Total	$ 9,485	$ 6,037	$ 4,327	$ 2,220	$ 22,069

	Nine Months Ended September 30, 2014 Intercompany Sales to				
(in thousands)	Americas	Germany	Other EMEA	Asia Pacific	Total
Americas	$ —	$ 30,999	$ 14,169	$ 10,430	$ 55,598
Germany	2,918	—	4,830	8	7,756
Other EMEA	29,688	2,453	1,554	1,602	35,297
Asia Pacific	1,518	(15)	—	1,930	3,433
Total	$ 34,124	$ 33,437	$ 20,553	$ 13,970	$ 102,084

	Nine Months Ended September 30, 2013				
	Intercompany Sales to				
(in thousands)	Americas	Germany	Other EMEA	Asia Pacific	Total
Americas	$ —	$ 16,058	$ 11,024	$ 3,485	$ 30,567
Germany	1,059	—	2,600	—	3,659
Other EMEA	16,621	1,377	1,522	566	20,086
Asia Pacific	2,604	641	67	915	4,227
Total	$ 20,284	$ 18,076	$ 15,213	$ 4,966	$ 58,539

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Income (loss) from operations:				
Americas	$ (767)	$ 17,833	$ (9,833)	$ 40,745
Germany	1,299	(56)	1,947	287
Other EMEA	643	1,601	5,168	3,602
Asia Pacific	7,136	9,309	25,658	19,102
Subtotal	8,311	28,687	22,940	63,736
Inter-segment elimination	(103)	(117)	(853)	(851)
Total	$ 8,208	$ 28,570	$ 22,087	$ 62,885

(in thousands)	September 30, 2014	December 31, 2013
Assets:		
Americas	$ 1,063,539	$ 870,208
Germany	46,739	38,685
Other EMEA	318,073	120,562
Asia Pacific	74,890	68,401
Total	$ 1,503,241	$ 1,097,856

(in thousands)	September 30, 2014	December 31, 2013
Cash and cash equivalents:		
Americas	$ 331,432	$ 286,377
Germany	8,350	3,441
Other EMEA	25,256	8,915
Asia Pacific	12,297	7,583
Total	$ 377,335	$ 306,316

(15) Commitments and Contingencies

The Company leases office space under various non-cancelable operating leases. Rent expense under operating leases was $2,763 and $7,673 for the quarter and nine months ended September 30, 2014 compared to $2,122 and $4,940 for the quarter and nine months ended September 30, 2013.

The Company has supply commitments for printer assemblies that total $55,494 at September 30, 2014, compared to $41,091 at December 31, 2013.

Certain of the Company’s acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total liabilities recorded for these earnouts as of September 30, 2014 and December 31, 2013 was $8,938 and $5,578, respectively.

Litigation

On November 20, 2012, the Company filed a complaint in an action titled 3D Systems, Inc. v. Formlabs, Inc. and Kickstarter, Inc. in the United States District Court for the District of South Carolina (Rock Hill Division) asserting that Formlabs’ and Kickstarter’s sales of the Form 1 3D printer infringed on one of the Company’s patents relating to stereolithography machines. Formlabs and Kickstarter filed a motion to dismiss or transfer venue on February 25, 2013, and the Company filed a first amended complaint on March 8, 2013. On May 8, 2013, the Court granted the parties’ joint motion to stay the case until September 3, 2013 to enable the parties to continue settlement discussions. On November 8, 2013, the Company voluntarily dismissed the South Carolina complaint and filed a new complaint in the United States District Court for the Southern District of New York asserting that Formlabs’ sales of the Form 1 3D printer infringed on eight of the Company’s patents relating to stereolithography machines. On December 20, 2013, Formlabs filed a motion to dismiss the Company’s claims of indirect and willful infringement, and the Company filed a memorandum in opposition on January 6, 2014. Formlabs filed a reply on January 16, 2014. The Court ruled on the motion to dismiss on May 12, 2014, granting in part and dismissing in part Formlabs’ motion. The Company filed a first amended complaint on May 16, 2014, and Formlabs filed its answer on September 2, 2014. The Company intends to pursue claims for damages against Formlabs.

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

Indemnification

In the normal course of business the Company periodically enters into agreements to indemnify customers or suppliers against claims of intellectual property infringement made by first parties arising from the use of the Company's products. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, the Company indemnifies directors and officers for certain events or occurrences while the director or officer is, or was, serving at the Company's request in such capacity, subject to limited exceptions. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has directors and officers insurance coverage that may enable the Company to recover future amounts paid, subject to a deductible and the policy limits. There is no assurance that the policy limits will be sufficient to cover all damages, if any.

(16) Accumulated Other Comprehensive Income (Loss)

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

(in thousands)	Foreign currency translation adjustment	Defined benefit pension plan	Liquidation of Non-US Entity	Total
Balance at December 31, 2013	$ 6,692	$ (1,076)	$ 173	$ 5,789
Other comprehensive income (loss)	(9,192)	136	—	(9,056)
Balance at September 30, 2014	$ (2,500)	$ (940)	$ 173	$ (3,267)

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

(17) Noncontrolling Interest

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

(18) Subsequent Event

On October 10, 2014, the Company and certain of its subsidiaries entered into a $150,000 five-year revolving, unsecured credit facility (the "Credit Agreement") with PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, HSBC Bank USA, N.A., as Syndication Agent, and the other lenders party thereto (collectively, the "Lenders"). The Credit Agreement comprises a revolving loan facility that provides for advances in the initial aggregate principal amount of up to $150,000 (the "Credit Facility"). Subject to certain terms and conditions contained in the Credit Agreement, the Company may, at its option and subject to customary conditions, request an increase in the aggregate principal amount available under the Credit Facility by an additional $75,000. The Credit Agreement includes provisions for the issuance of letters of credit and swingline loans.

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

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

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

The Credit Agreement contains customary representations, warranties, covenants and default provisions for a Credit Facility of this type, including, but not limited to, financial covenants, limitations on liens and the incurrence of debt, covenants to preserve corporate existence and comply with laws and covenants regarding the use of proceeds of the Credit Facility. The financial covenants include a maximum consolidated total leverage ratio, which is the ratio of consolidated total funded indebtedness to consolidated EBITDA (earnings before interest, taxes, depreciation and amortization expense), as defined in the Credit Agreement, of 3.00 to 1.00, and a minimum interest coverage ratio, which is the ratio of Consolidated EBITDA to cash interest expense, of 3.50 to 1.0. The Company is only required to be in compliance with the financial covenants as of the end of any fiscal quarter in which there are any loans outstanding at any time during such fiscal quarter.

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

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

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

Business Overview

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