

3D SYSTEMS CORP
Form 10-Q
October 25, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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)

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DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

95-4431352
(I.R.S. Employer
Identification No.)

333 THREE D SYSTEMS CIRCLE

ROCK HILL, SOUTH CAROLINA
(Address of Principal Executive Offices)

29730
(Zip Code)

(803) 326-3900

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes 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 October 19, 2012: 57,040,024

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3D SYSTEMS CORPORATION
Quarterly Report on Form 10-Q for the
Quarter Ended September 30, 2012

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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| <i>(in thousands, except par value)</i> | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 183,931 | \$ 179,120 |
| Accounts receivable, net of allowance for doubtful accounts of \$5,155 (2012) and \$3,019 (2011) | 69,750 | 51,195 |
| Inventories, net of reserves of \$3,824 (2012) and \$2,542 (2011) | 41,281 | 25,283 |
| Prepaid expenses and other current assets | 2,570 | 2,241 |
| Current deferred income taxes | 3,969 | 3,528 |
| Restricted cash | 13 | 13 |
| Total current assets | 301,514 | 261,380 |
| Property and equipment, net | 34,187 | 29,594 |
| Intangible assets, net | 96,902 | 54,040 |
| Goodwill | 220,465 | 107,651 |
| Long term deferred income taxes | 636 | 3,195 |
| Other assets, net | 6,814 | 7,114 |
| Total assets | \$ 660,518 | \$ 462,974 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current portion of capitalized lease obligations | \$ 159 | \$ 163 |
| Accounts payable | 26,730 | 25,911 |
| Accrued and other liabilities | 33,636 | 16,816 |
| Customer deposits | 2,755 | 3,398 |
| Deferred revenue | 15,935 | 12,735 |
| Total current liabilities | 79,215 | 59,023 |
| Long term portion of capitalized lease obligations | 7,494 | 7,609 |
| Convertible senior notes, net | 123,561 | 131,107 |
| Deferred income tax liability | 22,091 | 3,666 |
| Other liabilities | 11,667 | 6,781 |
| Total liabilities | 244,028 | 208,186 |
| Commitments and Contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, authorized 5,000 shares, none issued | | |
| Common stock, \$0.001 par value, authorized 120,000 shares; 57,376 (2012) and 50,975 (2011) issued | 57 | 51 |
| Additional paid-in capital | 408,031 | 274,542 |
| Treasury stock, at cost: 343 (2012) and 324 shares (2011) | (228) | (214) |
| Accumulated earnings (deficit) | 5,498 | (22,531) |
| Accumulated other comprehensive income | 3,132 | 2,940 |

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| | | |
|--|------------|------------|
| Total stockholders' equity | 416,490 | 254,788 |
| Total liabilities and stockholders' equity | \$ 660,518 | \$ 462,974 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**3D SYSTEMS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(Unaudited)**

| <i>(in thousands, except per share amounts)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|-----------------------------|-----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Products | \$ 59,551 | \$ 33,248 | \$ 161,223 | \$ 95,002 |
| Services | 30,981 | 24,290 | 90,839 | 65,561 |
| Total revenue | 90,532 | 57,538 | 252,062 | 160,563 |
| Cost of sales: | | | | |
| Products | 26,729 | 16,010 | 73,621 | 45,732 |
| Services | 16,924 | 13,765 | 49,741 | 38,667 |
| Total cost of sales | 43,653 | 29,775 | 123,362 | 84,399 |
| Gross profit | 46,879 | 27,763 | 128,700 | 76,164 |
| Operating expenses: | | | | |
| Selling, general and administrative | 22,900 | 15,100 | 70,898 | 42,224 |
| Research and development | 5,543 | 3,872 | 15,397 | 9,737 |
| Total operating expenses | 28,443 | 18,972 | 86,295 | 51,961 |
| Income from operations | 18,436 | 8,791 | 42,405 | 24,203 |
| Interest and other expense, net | 2,167 | 654 | 8,589 | 465 |
| Income before income taxes | 16,269 | 8,137 | 33,816 | 23,738 |
| Provision for (benefit of) income taxes | 2,752 | 917 | 5,787 | (3,677) |
| Net income | \$ 13,517 | \$ 7,220 | \$ 28,029 | \$ 27,415 |
| Other comprehensive income | | | | |
| Unrealized gain (loss) on pension obligation | \$ (6) | \$ (5) | \$ 1 | \$ |
| Foreign currency translation gain (loss) | 2,016 | (2,873) | 191 | (250) |
| Comprehensive income | \$ 15,527 | \$ 4,342 | \$ 28,221 | \$ 27,165 |
| Net income per share basic | \$ 0.24 | \$ 0.14 | \$ 0.53 | \$ 0.55 |
| Net income per share diluted | \$ 0.24 | \$ 0.14 | \$ 0.52 | \$ 0.54 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**3D SYSTEMS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| <i>(in thousands)</i> | Nine Months Ended September 30, | |
|--|--|------------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 28,029 | \$ 27,415 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for (benefit of) deferred income taxes | 2,941 | (4,833) |
| Depreciation and amortization | 15,804 | 7,402 |
| Non-cash interest on convertible notes | 2,923 | |
| Provision for bad debts | 2,369 | 929 |
| Stock-based compensation | 3,656 | 1,827 |
| (Gain) loss on the disposition of property and equipment and investments | (631) | 82 |
| Loss on conversion of convertible debt | 1,245 | |
| Changes in operating accounts: | | |
| Accounts receivable | (11,270) | (2,568) |
| Inventories | (10,582) | (5,000) |
| Prepaid expenses and other current assets | 237 | (293) |
| Accounts payable | (4,488) | (4,777) |
| Accrued liabilities | 14,298 | 37 |
| Customer deposits | (1,347) | 608 |
| Deferred revenue | 815 | (1,106) |
| Other operating assets and liabilities | 12 | (940) |
| Net cash provided by operating activities | 44,011 | 18,783 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,902) | (2,295) |
| Additions to license and patent costs | (535) | (305) |
| Cash paid for acquisitions, net of cash assumed | (148,278) | (44,830) |
| Net cash used in investing activities | (150,715) | (47,430) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 106,890 | 62,054 |
| Proceeds from exercise of stock options and restricted stock, net | 4,582 | 2,378 |
| Repayment of capital lease obligations | (121) | (172) |
| Restricted cash | | (189) |
| Net cash provided by financing activities | 111,351 | 64,071 |
| Effect of exchange rate changes on cash | 164 | (156) |
| Net increase in cash and cash equivalents | 4,811 | 35,268 |
| Cash and cash equivalents at the beginning of the period | 179,120 | 37,349 |
| Cash and cash equivalents at the end of the period | \$ 183,931 | \$ 72,617 |

Supplemental Cash Flow Information:

| | | | | |
|--|----|---------|----|-------|
| Interest payments | \$ | 5,114 | \$ | 418 |
| Income tax payments | | 1,889 | | 994 |
| Non-cash items: | | | | |
| Transfer of equipment from inventory to property and equipment, net(a) | | 2,228 | | 2,721 |
| Transfer of equipment to inventory from property and equipment, net(b) | | (1,365) | | 779 |
| Stock issued for acquisitions of businesses | | 7,103 | | 3,042 |
| Stock issued for conversions of 5.50% senior convertible notes | | 11,250 | | |

- (a) Inventory is transferred from inventory to property and equipment at cost when the Company requires additional machines for training, demonstration or short-term rentals.
- (b) In general, an asset is transferred from property and equipment, net into inventory at its net book value when the Company has identified a potential sale for a used machine. The machine is removed from inventory upon recognition of the sale.
- See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

| | Common Stock | | | Treasury Stock | | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders Equity |
|--|--------------|-------------------------|----------------------------------|----------------|----------|------------------------|---|---------------------------------|
| | Shares | Par Value \$0.001 | Additional Paid In Capital | Shares | Amount | | | |
| <i>(In thousands, except par value)</i> | | | | | | | | |
| Balance at December 31, 2011 | 50,975 | \$ 51 | \$ 274,542 | 324 | \$ (214) | \$ (22,531) | \$ 2,940 | \$ 254,788 |
| Exercise of stock options | 962 | (a) | 4,133 | | | | | 4,133 |
| Issuance (repurchase) of restricted stock, net | 474 | (a) | 463 | 19 | (14) | | | 449 |
| Issuance of common stock | 4,151 | 5 | 106,885 | | | | | 106,890 |
| Issuance of stock for acquisitions | 278 | (a) | 7,103 | | | | | 7,103 |
| Issuance of stock for 5.50% senior convertible notes | 536 | 1 | 11,249 | | | | | 11,250 |
| Stock-based compensation expense | | | 3,656 | | | | | 3,656 |
| Net income | | | | | | 28,029 | | 28,029 |
| Gain on pension plan unrealized | | | | | | | 1 | 1 |
| Foreign currency translation adjustment | | | | | | | 191 | 191 |
| Balance at September 30, 2012 | 57,376 | \$ 57 | \$ 408,031 | 343 | \$ (228) | \$ 5,498 | \$ 3,132 | \$ 416,490 |

(a) Amounts not shown due to rounding.
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, 2011.

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, 2012 are not necessarily indicative of the results to be expected for the full year.

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

Certain prior period amounts presented in the accompanying footnotes have been reclassified to conform to current year presentation.

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

The Company has evaluated subsequent events from the date of the condensed consolidated balance sheet through the date of the filing of this Form 10-Q. During this period, the Company closed the acquisition of Tim The Innovative Modelmakers B.V. (TIM) and INUS Technology, Inc., known as Rapidform®. See Note 2 and Note 16 for a description of subsequent events.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2012-2 (ASU 2012-2), Intangibles Goodwill and Other (Topic 350). ASU 2012-2 is intended to simplify the testing of intangible assets for impairment by permitting an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of indefinite-lived intangible assets is less than its carrying amount. If an entity determines on the basis of the qualitative factors this is the case, then it is required to perform the currently prescribed two-step impairment test described in Topic 350. ASU 2012-2 will become effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not anticipate that this amendment will have a significant impact on the company's consolidated financial statements.

No new accounting pronouncements, issued or effective during the third quarter of 2012, have had or are expected to have a significant impact on the Company's consolidated financial statements.

(2) Acquisitions

The Company completed an acquisition in the third quarter of 2012, which is discussed below.

On July 23, 2012, the Company acquired the shares of Viztu Technologies, Inc. (Viztu). Viztu is the developer of Hypr3D, an online platform that allows anyone to turn their pictures and videos into printable 3D creations. Viztu's operations have been integrated into the Company and are included in services revenue. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,000, of which \$500 was paid in cash and \$500 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 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

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the table below which summarizes third quarter 2012 acquisitions. The Viztu acquisition is not significant to the Company's financial statements.

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Subject to the terms and conditions of the acquisition agreement, the seller has the right to earn an additional amount, of up to a maximum of \$1,000, pursuant to an earnout formula over a four-year period as set forth in the acquisition agreement. As of September 30, 2012, an accrued liability of approximately \$81 was recorded for the earnout. The earnout was determined to be acquisition consideration and therefore is reflected as part of goodwill.

The Company's purchase price allocations for the acquired company is preliminary and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities becomes available. The amounts related to the acquisition of this business were allocated to the assets acquired and the liabilities assumed and included in the Company's condensed consolidated balance sheet at September 30, 2012 as follows:

| <i>(in thousands)</i> | 2012 |
|--|--------------|
| Fixed assets | \$ |
| Intangible assets | 1,166 |
| Other liabilities, net of cash acquired and assets assumed | (166) |
| Net assets acquired | \$ 1,000 |

Subsequent acquisitions

In October 2012, the Company acquired the shares of TIM The Innovative Modelmakers B.V. (TIM), a full service provider of on-demand custom parts services, located in the Netherlands. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$1,369, based on the exchange rate of the Euro at the date of acquisition, of which \$801 was paid in cash and \$568 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. Due to the timing of this acquisition, the Company is in the process of allocating the fair values of the assets purchased, liabilities assumed and other intangibles identified as of the acquisition date, with any excess to be recorded as goodwill. The Company plans to integrate TIM into its European on-demand parts services and future revenue from this acquisition will be reported in services revenue. The TIM acquisition is not significant to the Company's financial statements.

In October 2012, the Company acquired the shares of INUS Technology, Inc., a developer of scan-to-CAD and inspection software tools, known as Rapidform® (Rapidform). Rapidform is located in Seoul, South Korea. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$35,000, all of which was paid in cash. Due to the timing of this acquisition, the Company is in the process of allocating the fair values of the assets purchased, liabilities assumed and other intangibles identified as of the acquisition date, with any excess to be recorded as goodwill. Future revenue from this acquisition will be reported in printers and other products revenue. The Rapidform acquisition is not significant to the Company's financial statements.

(3) Inventories

Components of inventories, net at September 30, 2012 and December 31, 2011 were as follows:

| <i>(in thousands)</i> | 2012 | 2011 |
|--------------------------|---------------|---------------|
| Raw materials | \$ 21,578 | \$ 8,797 |
| Work in process | 1,361 | 606 |
| Finished goods and parts | 22,166 | 18,422 |
| Total cost | 45,105 | 27,825 |
| Less: reserves | (3,824) | (2,542) |
| Inventories, net | \$ 41,281 | \$ 25,283 |

Table of Contents**(4) Property and Equipment**

Property and equipment at September 30, 2012 and December 31, 2011 were as follows:

| <i>(in thousands)</i> | 2012 | 2011 | Useful Life (in years) |
|---|------------------|------------------|-----------------------------------|
| Land | \$ 541 | \$ 541 | N/A |
| Building | 9,204 | 9,204 | 25 |
| Machinery and equipment | 46,431 | 36,773 | 3-7 |
| Capitalized software ERP | 3,174 | 3,141 | 5 |
| Office furniture and equipment | 3,283 | 3,138 | 5 |
| Leasehold improvements | | | Life of lease (¹) |
| | 6,532 | 5,996 | |
| Rental equipment | 56 | 56 | 5 |
| Construction in progress | 967 | 980 | N/A |
| Total property and equipment | 70,188 | 59,829 | |
| Less: Accumulated depreciation and amortization | (36,001) | (30,235) | |
| Total property and equipment, net | \$ 34,187 | \$ 29,594 | |

- (1) 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, 2012 were \$2,151 and \$6,285, respectively, compared to \$1,547 and \$4,596, respectively, for the quarter and nine months ended September 30, 2011.

(5) Intangible Assets

Intangible assets other than goodwill at September 30, 2012 and December 31, 2011 were as follows:

| <i>(in thousands)</i> | 2012 | | | 2011 | | |
|---|-------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Intangible assets with finite lives: | | | | | | |
| Licenses | \$ 5,875 | \$ (5,875) | \$ | \$ 5,875 | \$ (5,875) | \$ |
| Patent costs | 20,091 | (13,989) | 6,102 | 16,379 | (13,846) | 2,533 |
| Acquired technology | 26,234 | (11,437) | 14,797 | 11,015 | (10,345) | 670 |
| Internally developed software | 17,847 | (11,064) | 6,783 | 17,847 | (9,983) | 7,864 |
| Customer relationships | 56,865 | (6,171) | 50,694 | 32,974 | (1,798) | 31,176 |
| Non-compete agreements | 11,717 | (3,280) | 8,437 | 8,976 | (1,890) | 7,086 |
| Trade names | 4,362 | (574) | 3,788 | 1,951 | (180) | 1,771 |
| Other | 6,355 | (2,824) | 3,531 | 1,986 | (1,746) | 240 |
| Intangibles with indefinite lives: | | | | | | |
| Trademarks | 2,770 | | 2,770 | 2,700 | | 2,700 |
| Total intangible assets | \$ 152,116 | \$ (55,214) | \$ 96,902 | \$ 99,703 | \$ (45,663) | \$ 54,040 |

For the nine months ended September 30, 2012 and 2011, the Company capitalized \$535 and \$305, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

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Amortization expense for intangible assets for the quarter and nine months ended September 30, 2012 was \$3,079 and \$9,519, respectively, compared to \$855 and \$2,806 for the quarter and nine months ended September 30, 2011.

Annual amortization expense for intangible assets for 2012, 2013, 2014, 2015 and 2016 is expected to be \$12,545, \$12,090, \$11,974, \$10,765 and \$9,624, respectively.

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Accrued liabilities at September 30, 2012 and December 31, 2011 were as follows:

| <i>(in thousands)</i> | 2012 | 2011 |
|--|------------------|------------------|
| Compensation and benefits | \$ 21,613 | \$ 7,036 |
| Vendor accruals | 2,118 | 1,640 |
| Accrued professional fees | 474 | 326 |
| Accrued taxes | 4,309 | 3,500 |
| Royalties payable | 468 | 302 |
| Accrued interest | 2,332 | 950 |
| Earnouts and deferred payments related to acquisitions | 1,497 | 1,384 |
| Accrued other | 825 | 1,678 |
| Total | \$ 33,636 | \$ 16,816 |

Other liabilities at September 30, 2012 and December 31, 2011 were as follows:

| <i>(in thousands)</i> | 2012 | 2011 |
|--|------------------|-----------------|
| Defined benefit pension obligation | \$ 3,855 | \$ 3,884 |
| Long-term tax liability | 825 | 827 |
| Earnouts and deferred payments related to acquisitions | 6,531 | 1,898 |
| Other long-term liabilities | 456 | 172 |
| Total | \$ 11,667 | \$ 6,781 |

(7) Hedging Activities and Financial Instruments

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

There were no foreign currency contracts outstanding at September 30, 2012 or December 31, 2011.

The total impact of foreign currency transactions on the condensed consolidated statements of operations and comprehensive income for the quarter and nine months ended September 30, 2012 reflected gains of \$653 and \$138, respectively, compared to a loss of \$575 and a gain of \$36, respectively, for the quarter and nine months ended September 30, 2011.

(8) Borrowings*5.5% senior convertible notes and interest expense*

In November 2011, the Company issued \$152,000 of 5.50% senior convertible notes due December 2016. These notes are senior unsecured obligations and rank equal in right of payment with all the Company's existing and future senior unsecured indebtedness. They are also senior in right of payment to any subordinated indebtedness that the Company may incur in the future.

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The notes accrue interest at the rate of 5.50% per year payable in cash semi-annually on June 15 and December 15 of each year.

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The following table summarizes the principal amounts and related unamortized discount on convertible notes at September 30, 2012 and December 31, 2011:

| <i>(in thousands)</i> | 2012 | 2011 |
|---|-------------------|-------------------|
| Principal amount of convertible notes | \$ 140,500 | \$ 152,000 |
| Unamortized discount on convertible notes | (16,939) | (20,893) |
| Net carrying value | \$ 123,561 | \$ 131,107 |

These notes are convertible into shares of the Company's Common Stock at an initial conversion rate equivalent to 46.6021 shares of Common Stock per \$1 principal amount of notes, which represents an initial conversion rate of approximately \$21.46 per share of Common Stock. The conversion rate is subject to adjustment in certain circumstances as more fully set forth in the indenture covering the notes. Conditions for conversion have been satisfied and the notes are convertible. During the third quarter of 2012 note holders converted \$11,500 aggregate principal amount of notes, which converted into 536 shares of common stock. The Company recognized a \$1,245 loss on conversion of these notes in other expense, net.

If converted, the aggregate principal amount of the notes then outstanding may be settled in cash, shares of common stock, or a combination thereof, at the Company's election. Subject to the terms of the indenture, holders may convert their notes at any time. The number of shares of common stock that the notes are convertible into is approximately 6,548. In certain circumstances provided for in the indenture, the number of shares of common stock issuable upon conversion of the notes may be increased, and with it the aggregate principal amount of the notes. Unless earlier repurchased, redeemed or converted, the notes will mature on December 15, 2016.

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

Upon certain terms and conditions, the Company may elect to satisfy its conversion obligation with respect to the notes by paying cash, in whole or in part, for specified aggregate principal amount of the notes. In the event of certain types of fundamental changes, the Company will increase the conversion rate by a number of additional shares, up to a maximum of 8,348 shares, which equates to a conversion price of approximately \$16.83 per share.

(9) Stock-based Compensation Plans

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income. Stock-based compensation expense for the quarter and nine months ended September 30, 2012 and 2011 was as follows:

| <i>(in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|-----------------------------|--------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Restricted stock awards | \$ 1,176 | \$ 593 | \$ 3,656 | \$ 1,827 |

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, 2012 and 2011 were as follows:

| <i>(in thousands, except per share amounts)</i> | Quarter Ended September 30, | | | |
|---|-----------------------------|--|-------------------|--|
| | Shares Awarded | 2012 Weighted Average Fair Value | Shares Awarded | 2011 Weighted Average Fair Value |
| Restricted stock awards: | | | | |

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| | | | | | | |
|--|----|----|-------|----|----|-------|
| Granted under the 2004 Incentive Stock Plan | 80 | \$ | 34.78 | 46 | \$ | 22.65 |
| Granted under the 2004 Restricted Stock Plan for Non-Employee Directors | | | | | | |
| Total restricted stock awards | 80 | \$ | 34.78 | 46 | \$ | 22.65 |

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| <i>(in thousands, except per share amounts)</i> | Nine Months Ended September 30, | | | |
|--|---------------------------------|--|-------------------|--|
| | Shares Awarded | 2012 Weighted Average Fair Value | Shares Awarded | 2011 Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the 2004 Incentive Stock Plan | 237 | \$ 27.78 | 198 | \$ 20.49 |
| Granted under the 2004 Restricted Stock Plan for Non-Employee Directors | 11 | 27.42 | 16 | 18.23 |
| Total restricted stock awards | 248 | \$ 27.76 | 214 | \$ 20.32 |

In the nine months ended September 30, 2012, the Company granted restricted stock awards covering 237 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan. Of the 237 shares granted in the first nine months of 2012, 13 of the shares were awarded to executive officers of the Company. Additionally, of the 237 shares granted in the first nine months of 2012, 4 remained subject to acceptance at September 30, 2012. In the first nine months of 2011, the Company granted restricted stock awards covering 198 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan; 10 of which were awarded to executive officers of the Company.

In the first nine months of 2012 and 2011, respectively, the Company granted 11 shares and 16 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 2012 and 2011 was \$300 and \$300, respectively.

(10) International Retirement Plan

The following table shows the components of net periodic benefit costs and other amounts recognized in the condensed consolidated statements of operations and comprehensive income for the quarter and nine months ended September 30, 2012 and 2011:

| <i>(in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------|-----------------------------|-------|---------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$ 18 | \$ 28 | \$ 55 | \$ 85 |
| Interest cost | 29 | 31 | 93 | 95 |
| Total | \$ 47 | \$ 59 | \$ 148 | \$ 180 |

(11) Earnings Per Share

The Company presents basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income 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.

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The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares at September 30, 2012 and 2011:

| <i>(in thousands, except per share amounts)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income numerator for basic net earnings per share | \$ 13,517 | \$ 7,220 | \$ 28,029 | \$ 27,415 |
| Add: Effect of dilutive securities | | | | |
| Interest expense on 5.50% convertible notes (after-tax) ⁽¹⁾ | | | | |
| Stock options and other equity compensation | | | | |
| Numerator for diluted earnings per share | \$ 13,517 | \$ 7,220 | \$ 28,029 | \$ 27,415 |
| Denominator: | | | | |
| Weighted average shares denominator for basic net earnings per share | 55,935 | 50,450 | 52,689 | 49,455 |
| Add: Effect of dilutive securities | | | | |
| Stock options and other equity compensation | 629 | 952 | 784 | 1,020 |
| 5.50% convertible notes (after-tax) ⁽¹⁾ | | | | |
| Denominator for diluted earnings per share | 56,564 | 51,402 | 53,473 | 50,475 |
| Earnings per share | | | | |
| Basic | \$ 0.24 | \$ 0.14 | \$ 0.53 | \$ 0.55 |
| Diluted | \$ 0.24 | \$ 0.14 | \$ 0.52 | \$ 0.54 |
| Interest expense excluded from diluted earnings per share calculation ⁽¹⁾ | | | | |
| | \$ 2,508 | | \$ 7,578 | |
| 5.50% Convertible notes shares excluded from diluted earnings per share calculation ⁽¹⁾ | | | | |
| | 6,548 | | 5,303 | |

⁽¹⁾ 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, 2012, average common shares for basic and diluted earnings per share were 55,935 and 56,564, respectively, and basic and diluted earnings per share were both \$0.24. For the quarter ended September 30, 2011, average common shares for basic and diluted earnings per share were 50,450 and 51,402 respectively, and basic and diluted earnings per share were each \$0.14.

For the nine months ended September 30, 2012, average common shares for basic and diluted earnings per share were 52,689 and 53,473, respectively, and basic and diluted earnings per share were \$0.53 and \$0.52, respectively. For the nine months ended September 30, 2011, average common shares for basic and diluted earnings per share were 49,455 and 50,475 respectively, and basic and diluted earnings per share were \$0.55 and \$0.54, respectively.

(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;

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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.

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

| <i>(in thousands)</i> Description | Fair Value Measurements as of September 30, 2012 | | | |
|--------------------------------------|--|---------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents ⁽¹⁾ | \$ 136,805 | \$ | \$ | \$ 136,805 |

⁽¹⁾ 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, 2012.

The carrying value of the senior convertible notes as of September 30, 2012 and December 31, 2011 was \$123,561 and \$131,107, respectively, net of the unamortized discount. As of September 30, 2012 and December 31, 2011, the estimated fair value of the senior convertible notes was \$141,570 and \$149,615, respectively, based on quoted market prices. The Company determined the fair value of the convertible notes utilizing transactions in the listed markets for identical or similar liabilities. As such, the fair value of the senior convertible notes is considered Level 2.

In addition to the financial assets included in the above table, certain of our non-financial assets and liabilities are to be initially measured at fair value on a non-recurring basis. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and non-financial, long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets and liabilities including goodwill, other intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when impairment is recognized. The Company has not recorded any impairments related to such assets and has had no other significant non-financial assets or non-financial liabilities requiring adjustments or write-downs to fair value as of September 30, 2012 or December 31, 2011.

(13) Income Taxes

The Company's effective tax rates were 16.9% and 17.1% for the quarter and nine months ended September 30, 2012, respectively, compared to 11.3% and (15.5%) for the quarter and nine months ended September 30, 2011, respectively.

The Company has utilized a portion of its U.S. net deferred tax assets, against which there is a valuation allowance, in determining its effective tax rate for 2012. The remainder of its U.S. net deferred assets, against which there are valuation allowances, has been offset by the recognition of deferred income tax liabilities from the acquisitions of Z Corp, Vidar, My Robot Nation, Bespoke and Viztu. These acquisitions resulted in recognizing \$502 of deferred income tax assets and \$18,393 of deferred income tax liabilities.

In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company assesses the possibility of releasing the valuation allowance remaining on its U.S. net deferred tax assets. There were no releases of the valuation allowance on deferred tax assets during the first nine months of 2012; however, the Company's effective tax rate has been reduced as a result of the use of U.S. net deferred tax assets against which there is a valuation allowance. During the first nine months ended September 30, 2011, the Company reversed \$17,000 of the valuation allowance applied to U.S. net deferred tax assets. The reversal of the valuation allowance resulted in a non-cash income tax benefit of \$6,221, which resulted in a benefit of 12 cents per share for the first nine months of 2011. As of September 30, 2012, the Company has a valuation allowance remaining on its U.S. net deferred tax assets of \$9,253.

As a result of the exercise of stock options during the third quarter, the Company will have the benefit of an excess deduction of \$31,049, which will be recorded to additional paid-in capital when the Company realizes a reduction in its current taxes payable.

Tax years 2008 to 2011 remain subject to examination by the U.S. Internal Revenue Service. The Company has utilized a portion of its U.S. loss carryforwards covering the years 1997 through 2003. Should the Company utilize any of its remaining losses, which date back to 2003, these would be subject to examination. The Company files income tax returns (which are open to examination beginning in the year shown in parentheses) in France (2005), Germany (2007), Japan (2006), Italy (2006), Switzerland (2006), the United Kingdom (2008), the Netherlands (2006), India (2011) and Australia (2007).

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The Company operates in one reportable business segment. The Company conducts its business through subsidiaries in the United States, a subsidiary in Switzerland that operates a research and production facility, and sales and services offices, including custom parts services, operated by subsidiaries in Europe (France, Germany, the United Kingdom, Italy and the Netherlands) and in Asia-Pacific (Australia, China and Japan). 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.

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

| <i>(in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-----------------------------|-----------|---------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue from unaffiliated customers: | | | | |
| United States | \$ 48,828 | \$ 31,679 | \$ 141,498 | \$ 83,165 |
| Germany | 11,608 | 8,288 | 28,927 | 23,330 |
| Other Europe | 13,991 | 12,061 | 42,036 | 33,701 |
| Asia Pacific | 16,105 | 5,510 | 39,601 | 20,367 |
| Total | \$ 90,532 | \$ 57,538 | \$ 252,062 | \$ 160,563 |

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

| <i>(in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------|-----------------------------|-----------|---------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Printers and other products | \$ 34,069 | \$ 14,791 | \$ 84,859 | \$ 44,519 |
| Materials | 25,482 | 18,457 | 76,364 | 50,483 |
| Services | 30,981 | 24,290 | 90,839 | 65,561 |
| Total revenue | \$ 90,532 | \$ 57,538 | \$ 252,062 | \$ 160,563 |

Intercompany sales were as follows:

| <i>(in thousands)</i> | Quarter Ended September 30, 2012 | | | | |
|-----------------------|----------------------------------|----------|--------------|--------------|-----------|
| | Intercompany Sales to | | | | |
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 5,577 | \$ 3,065 | \$ 802 | \$ 9,444 |
| Germany | 94 | | 504 | | 598 |
| Other Europe | 3,714 | 78 | 113 | 29 | 3,934 |
| Asia Pacific | 127 | | | | 127 |
| Total | \$ 3,935 | \$ 5,655 | \$ 3,682 | \$ 831 | \$ 14,103 |

| <i>(in thousands)</i> | Quarter Ended September 30, 2011 | | | | |
|-----------------------|----------------------------------|----------|--------------|--------------|----------|
| | Intercompany Sales to | | | | |
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 3,968 | \$ 2,270 | \$ 681 | \$ 6,919 |
| Germany | 8 | | 1,063 | | 1,071 |

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| | | | | | |
|--------------|----------|----------|----------|--------|-----------|
| Other Europe | 3,524 | | 7 | | 3,531 |
| Asia Pacific | | | | | |
| Total | \$ 3,532 | \$ 3,968 | \$ 3,340 | \$ 681 | \$ 11,521 |

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| <i>(in thousands)</i> | Nine Months Ended September 30, 2012 | | | | |
|-----------------------|--------------------------------------|-----------------|-----------------|-----------------|------------------|
| | Intercompany Sales to | | | | |
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 8,270 | \$ 6,004 | \$ 1,539 | \$ 15,813 |
| Germany | | 128 | 1,033 | 177 | 1,338 |
| Other Europe | | 6,661 | 52 | 139 | 6,974 |
| Asia Pacific | | 44 | 7 | | 51 |
| Total | \$ 6,833 | \$ 8,329 | \$ 7,176 | \$ 1,838 | \$ 24,176 |

| <i>(in thousands)</i> | Nine Months Ended September 30, 2011 | | | | |
|-----------------------|--------------------------------------|------------------|-----------------|-----------------|------------------|
| | Intercompany Sales to | | | | |
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 11,265 | \$ 6,222 | \$ 2,812 | \$ 20,299 |
| Germany | | 118 | 2,466 | | 2,584 |
| Other Europe | | 9,396 | 1 | 19 | 9,416 |
| Asia Pacific | | | | | |
| Total | \$ 9,514 | \$ 11,266 | \$ 8,707 | \$ 2,812 | \$ 32,299 |

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

| <i>(in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------|-----------------------------|-----------------|---------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Income from operations: | | | | |
| United States | \$ 11,601 | \$ 5,840 | \$ 24,607 | \$ 12,975 |
| Germany | 133 | 158 | 949 | 985 |
| Other Europe | 793 | 1,247 | 4,225 | 3,880 |
| Asia Pacific | 5,909 | 1,556 | 12,528 | 6,327 |
| Subtotal | 18,436 | 8,801 | 42,309 | 24,167 |
| Inter-segment elimination | | (10) | 96 | 36 |
| Total | \$ 18,436 | \$ 8,791 | \$ 42,405 | \$ 24,203 |

| <i>(in thousands)</i> | September 30, | December 31, |
|-----------------------|-------------------|-------------------|
| | 2012 | 2011 |
| Assets: | | |
| United States | \$ 539,294 | \$ 346,350 |
| Germany | 21,123 | 20,285 |
| Other Europe | 76,703 | 71,202 |
| Asia Pacific | 23,398 | 25,137 |
| Total | \$ 660,518 | \$ 462,974 |

(15) Commitments and Contingencies

The Company leases office space under various non-cancelable operating leases. Rent expense under operating leases was \$1,217 and \$3,553 for the quarter and nine months ended September 30, 2012, respectively, compared to \$652 and \$1,921 for the quarter and nine months ended

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September 30, 2011, respectively.

As of September 30, 2012, the Company has supply commitments with third party assemblers for printer assembly at September 30, 2012 that total \$13,062, compared to \$9,146 at September 30, 2011.

For certain of the acquisitions, the Company is obligated for deferred purchase price commitments totaling \$1,885, which are due in 2012 and 2013. Certain of our recent 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, 2012 was \$6,143. As of September 30, 2011, the Company had recorded \$5,158 of liabilities for earnouts related to acquisitions. See Note 2 for details of acquisitions and related commitments.

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Litigation

The Company had been pursuing patent infringement litigation against EnvisionTEC, Inc. and certain of its related companies since 2005. During the third quarter of 2012, the parties settled the dispute and the litigation has been dismissed.

In 2010, MSK K.K., a Japanese company, filed a complaint against the Company's Japanese subsidiary in the Tokyo District Court asserting, among other things, various contract claims associated with two laser sintering machines purchased from the Company's Japanese subsidiary in 2007. During the third quarter of 2012, the parties settled the dispute and the litigation has been dismissed.

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

The Company filed answers to DSM Desotech's complaint in which, among other things, the Company denied the material allegations of DSM Desotech's complaint. In 2010, the Court issued a decision relating to the construction of the claims of the patents-in-suit following a Markman hearing held in 2009. In that decision, the Court generally adopted the claim constructions that the Company proposed.

Fact discovery, including expert discovery, regarding the claims pending in this case concluded in 2011. The Company filed motions for summary judgment in December 2011 that seek rulings in its favor on all of DSM Desotech's claims in the litigation. As of the date of this Form 10-Q, the Court had ruled on only one of the four motions, denying the Company's motion.

The Company understands that DSM Desotech estimates the damages associated with its claims to be in excess of \$40,000. The Company intends to continue to vigorously contest all the claims asserted by DSM Desotech.

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 third 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 we 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) Subsequent Events

In October 2012, the Company acquired the shares of TIM The Innovative Modelmakers B.V. (TIM). TIM, located in the Netherlands, is a full service provider of on-demand custom parts services. The Company plans to integrate TIM into its European on-demand parts services and future revenue from this acquisition will be reported in services revenue. The TIM acquisition is not significant to the Company's financial statements. See Note 2.

In October 2012, the Company acquired the shares of INUS Technology, Inc., located in Korea, a developer of scan-to-CAD and inspection software tools, known as Rapidform® (Rapidform). Future revenue from this acquisition will be reported in printers and other products revenue. The Rapidform acquisition is not significant to the Company's financial statements. See Note 2.

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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 global provider of three-dimensional (3D) content-to-print solutions including 3D printers, print materials, on-demand custom parts services and creative content development, design productivity tools and curation services and downloads for professionals and consumers alike. Our integrated solutions enable complex three-dimensional objects to be produced directly from 3D digital data without tooling, greatly reducing the time and cost required to produce prototypes or customized production parts. Through our custom parts services, which consists of our 3Dproparts and Quickparts® brands, we also supply a wide variety of custom-made plastic and metal parts as well as assembly and production jigs, fixtures and casting patterns in different finishes and colors through a growing network of custom parts service locations.

We derive our consolidated revenue primarily from the sale of our printers, the sale of the related print materials used by the printers to produce solid objects and the provision of printer services and custom parts services to our customers.

Recent Developments

We have continued to execute on our strategic initiatives, including growing our on-demand custom parts services, accelerating personal, professional and production 3D printer penetration by expanding our distribution channel of reseller partners, continuing to expand our healthcare solutions offerings and continuing to execute on our initiative to build 3D consumer content products and services. We also recently announced a new 3D authoring solutions growth initiative, which is to combine scan-data capture, mesh processing, auto-surfacing and CAD modeling into a single platform.

During the third quarter, we announced the immediate availability of our new ProJet 5000 3D printer. The ProJet 5000 is a large format professional 3D printer designed for production durability and productivity, in a compact, quiet, easy-to-use format. It prints at speeds twice as fast as the previous version and offers the highest resolution available in its class.

In connection with our consumer solutions initiative, we acquired Viztu Technologies, the developer of Hypr3D , an online platform that allows anyone to turn their pictures and videos into printable 3D creations. We have integrated Viztu into our consumer solutions products and services. We also launched Cubify® Invent, the first 3D design tool developed specifically with 3D printing in mind, empowering users to easily turn ideas into reality, and several new Cubify® apps for game-like creation of personalized 3D printed items.

In support of our on-demand parts initiative, we acquired TIM The Innovative Modelmakers B.V. (TIM) in October. TIM is a full service provider of on-demand custom parts services located in the Netherlands.

During October, in connection with our new 3D authoring growth initiative, we acquired INUS Technology, Inc., a global provider of 3D scan-to-CAD and inspection software tools known as Rapidform® (Rapidform). Rapidform is located in Seoul, South Korea and we plan to integrate it into our printers and other products revenue.

Also in October, we launched a new material, VisiJet® Jewel, formulated for high volume jewelry production. VisiJet Jewel® enables manufacturers worldwide to produce master models for cost effective direct casting of jewelry with detail, accuracy and quality, and the high contrast provided by the material enables detailed visual inspection of designs and patterns.

Results of Operations

Summary of 2012 financial results

Our operating activities generated \$44.0 million of cash during the first nine months of 2012, which is discussed in further detail below. We used \$150.7 million to fund our strategic investing activities, including acquisition of businesses. Financing activities during the first nine months of

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2012 provided \$111.4 million of cash. In total, our unrestricted cash balance at September 30, 2012 was \$183.9 million compared to \$179.1 million at December 31, 2011.

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During the third quarter of 2012 we reported improved revenue and profit results as compared to the third quarter of 2011 as our worldwide businesses continued to expand both organically and through acquisitions. Revenue for the third quarter of 2012 increased by 57.3% over the third quarter of 2011. This increase in revenue was led by a \$19.3 million, or 130.3%, increase in sales of printers and other products together with a \$7.0 million, or 38.1%, increase in print material sales and a \$6.7 million, or 27.5%, increase in services revenue year-over-year. Higher revenue combined with increased selling, general and administrative expenses primarily related to compensation and acquisition expenses and interest expense on the convertible notes resulted in net income of \$13.5 million for the third quarter of 2012, compared to net income of \$7.2 million for the same period in 2011. Revenue for Z Corp and Vidar for the third quarter of 2012 was \$13.3 million and, after taking into account the integration and severance costs, the operating loss for Z Corp and Vidar was \$2.2 million.

Printers and other products revenue increased by \$19.3 million from the third quarter of 2011, to \$34.1 million, both organically and through acquisitions. Printer units increased 121.2%, excluding Cube® units, compared to the third quarter of 2011, from both organic growth and acquired growth from the addition of Z Corp and Vidar in 2012.

Print materials sales for the third quarter of 2012 were \$25.5 million, an increase of \$7.0 million from the third quarter of 2011 as revenue from materials was favorably impacted by continued expansion of printers installed over past periods through both organic growth and acquisitions.

Revenue from services increased by \$6.7 million to \$31.0 million in the third quarter of 2012 from \$24.3 million in the same quarter in 2011. The increase in services revenue reflects revenue from our custom parts services and increased revenue from printer service components, from both organic growth and acquisitions. Service revenue from custom parts services was \$20.0 million, or 64.7%, of total service revenue for the third quarter of 2012.

For the third quarter of 2012, healthcare solutions revenue made up 13.3%, or \$12.1 million, of our total revenue compared to 12.5%, or \$7.2 million, in the third quarter of 2011, primarily due to our increased penetration into healthcare applications and to our acquisition of Vidar. Healthcare solutions revenue includes sales of printers, print materials, and services for hearing aid, dental, medical device and other health-related applications.

Our gross profit in the third quarter and first nine months of 2012 improved by \$19.1 million and \$52.5 million, respectively, primarily due to our higher level of revenue from increases across all revenue categories, including increased revenue from our higher gross profit margin print materials, coupled with continued cost containment. Our gross profit margin increased to 51.8% in the third quarter of 2012 from 48.3% in the third quarter of 2011 due to product mix, with an increased portion of sales of higher margin print materials, improvements in our cost structure and on-demand parts gross profit margin and the addition of higher margin Z Corp and Vidar printers.

Our total operating expenses increased by \$9.4 million in the third quarter of 2012 to \$28.4 million from \$19.0 million in the 2011 quarter. The increase reflected higher selling, general and administrative expenses primarily due to higher commissions and staffing from our acquisitions, and acquisition and severance costs of \$0.3 million during the third quarter of 2012 and \$3.0 million during the first nine months of 2012, from which we expect annual savings of \$5.0 million to \$5.5 million. This is consistent with our previous expectations of achieving between \$5.0 million and \$10.0 million in synergies. The increase also reflected a \$1.6 million increase in research and development expenses related to our new products and consumer solutions development and acquired R&D expenses. We expect to continue to increase operating leverage as we reduce costs as a percent of revenue.

Our operating income for the third quarter of 2012 increased to \$18.4 million from \$8.8 million in the 2011 quarter. This improvement in operating income improved from higher revenues and increased gross profit, partially offset by higher operating expenses, including acquisition expenses incurred, as discussed below.

Table of Contents**Third quarter comparison of revenue by class of product and service**

Table 1 sets forth our change in revenue by class of product and service for the third quarter of 2012 compared to the third quarter of 2011:

Table 1

| <i>(Dollars in thousands)</i> | | Printers and Other | | Print Materials | | Services | | Totals | |
|-------------------------------|------------------------------|--------------------|---------|-----------------|--------|-----------|-------|-----------|--------|
| | | Products | | | | | | | |
| Revenue | 3rd quarter 2011 | \$ 14,791 | 25.7% | \$ 18,457 | 32.1% | \$ 24,290 | 42.2% | \$ 57,538 | 100% |
| Change in revenue: | | | | | | | | | |
| Volume | | | | | | | | | |
| | Core products and services | 56,882 | 384.5 | (2,137) | (11.6) | 7,032 | 29.1 | 61,777 | 107.4 |
| | New products and services | 11,341 | 76.7 | 6,976 | 37.8 | 490 | 2.0 | 18,807 | 32.7 |
| | Price/Mix | (48,199) | (325.9) | 2,951 | 16.0 | | | (44,538) | (78.6) |
| | Foreign currency translation | (746) | (5.0) | (765) | (4.1) | (831) | (3.4) | (2,342) | (4.1) |
| | Net change | 19,278 | 130.4 | 7,025 | 38.1 | 6,691 | 27.5 | 32,994 | 57.3 |
| Revenue | 3rd quarter 2012 | \$ 34,069 | 37.6% | \$ 25,482 | 28.1% | \$ 30,981 | 34.2% | \$ 90,532 | 100% |

We earn revenues from the sale of printers and other products, print materials and services. On a consolidated basis, revenue for the third quarter of 2012 increased by \$33.0 million, or 57.3%, compared to the third quarter of 2011 primarily due to increased sales of printers from acquired and organic growth, coupled with increased print materials and on-demand parts service revenue from acquired and organic growth.

The increase in revenue from printers and other products compared to the third quarter of 2011 is primarily due to increased printer unit sales volume for the third quarter of 2012, driven by increased demand for personal and professional printers and acquired printers revenue from the Z Corp and Vidar acquisitions that we completed in the first quarter of 2012.

Production printers made up \$10.2 million, or 30.5%, of total printers revenue for the third quarter of 2012, compared to \$7.8 million, or 52.7% for the third quarter of 2011. This represented a 30.3% increase over the 2011 quarter, all of which was organic growth.

Personal and professional printers made up \$23.1 million, or 69.5%, of total printers revenue for the third quarter of 2012, compared to \$7.0 million, or 47.3%, for the third quarter of 2011. This represented a 230.9% increase in personal and professional printers revenue over the 2011 quarter, including revenue and units from Z Corp and Vidar which were acquired in 2012.

Due to the relatively high price of certain production printers and a corresponding lengthy selling cycle and relatively low unit volume of these higher priced production printer sales in any particular period, a shift in the timing and concentration of orders and shipments of a few printers from one period to another can significantly affect reported revenue in any given period. Revenue reported for printers sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles. The shift of production printer revenue to a lower percentage of total printer revenue and professional printers making up a larger percentage of printer revenue is consistent with our ongoing plan to accelerate printer adoption by introducing lower priced printers and is partially due to the acquisition of Z Corp and Vidar in 2012, which added only personal and professional printers.

The \$7.0 million increase in revenue from print materials was aided by the improvement in printers sales and by the continued expansion of printers installed over past periods and by increased materials sales from the acquisitions of RenShape® and Z Corp print materials. Sales of integrated materials represented 63.2% of total materials revenue in the third quarter of 2012 compared to 53.3% in the third quarter of 2011.

The increase in services revenue primarily reflects revenue from our on-demand parts services from both organic growth and acquisitions. Service revenue from on-demand parts services was \$20.0 million, or 64.7% of total service revenue for the third quarter of 2012 compared to \$15.6 million, or 64.4% of total service revenue in the 2011 period.

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For both the third quarter of 2012 and 2011, Z Corp and Vidar had \$13.3 million of revenue. If Z Corp and Vidar had been included in our revenue for 2011, our overall corporate growth rate would have been 27.7%.

Excluding revenue of all acquired businesses that we have owned for less than one year, our organic growth rate for the third quarter of 2012 was 26.2%.

At September 30, 2012 our backlog was \$9.3 million, compared to backlogs of \$8.3 million at December 31, 2011 and \$11.3 million at September 30, 2011. Production and delivery of our printers is generally not characterized by long lead times, backlog is more dependent on timing of customers requested delivery. In addition, custom parts services lead time and backlog depends on whether orders are for rapid prototyping or longer-range production runs. The September 30, 2012 backlog was well distributed with a significant portion from each of our revenue categories and included personal, professional and production printers, as well as from print materials and on-demand parts. The backlog at September 30, 2012 includes \$5.5 million of custom parts services orders, compared to \$6.3 million at September 30, 2011.

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In addition to changes in sales volumes, including the impact of revenue from acquisitions, there are two other primary drivers of changes in revenues from one period to another: the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, and the impact of fluctuations in foreign currencies.

As used in this Management's Discussion and Analysis, the price and mix effects relate to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our systems as the trend toward smaller, lower-priced printers has continued and the influence of new printers and print materials on our operating results has grown.

Change in third quarter revenue by geographic region

Each geographic region contributed to our higher level of revenue in third quarter of 2012. Table 2 sets forth the change in revenue by geographic area for the third quarter of 2012 compared to the third quarter of 2011:

Table 2

| <i>(Dollars in thousands)</i> | | U.S. | | Europe | | Asia-Pacific | | Total | |
|-------------------------------|------------------|-----------|---------|-----------|--------|--------------|--------|-----------|--------|
| Revenue | 3rd quarter 2011 | \$ 31,679 | 55.0% | \$ 20,349 | 35.4% | \$ 5,510 | 9.6% | \$ 57,538 | 100% |
| Change in revenue: | | | | | | | | | |
| Volume | | 59,290 | 187.1 | 10,114 | 49.7 | 11,180 | 202.9 | 80,584 | 140.0 |
| Price/Mix | | (42,141) | (133.0) | (2,395) | (11.8) | (712) | (12.9) | (45,248) | (78.6) |
| Foreign currency translation | | | | (2,469) | (12.1) | 127 | 2.3 | (2,342) | (4.1) |
| Net change | | 17,149 | 54.1 | 5,250 | 25.8 | 10,595 | 192.3 | 32,994 | 57.3 |
| Revenue | 3rd quarter 2012 | \$ 48,828 | 53.9% | \$ 25,599 | 28.3% | \$ 16,105 | 17.8% | \$ 90,532 | 100% |

Revenue from U.S. operations in the third quarter of 2012 increased by \$17.1 million, or 54.1%, to \$48.8 million in 2012 from \$31.7 million in the third quarter of 2011. The increase was due to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from non-U.S. operations in the third quarter of 2012 increased by \$15.8 million, or 61.3%, to \$41.7 million from \$25.9 million in 2011. Revenue from non-U.S. operations as a percent of total revenue was 46.1% and 45.0%, respectively, at September 30, 2012 and 2011. The increase in non-U.S. revenue, excluding the effect of foreign currency translation, was 70.3% in the third quarter of 2012 compared to 3.8% in the third quarter of 2011.

Revenue from European operations increased by \$5.3 million, or 25.8%, to \$25.6 million from \$20.3 million in the prior year period. This increase was due to a \$10.1 million increase in volume, partially offset by \$2.4 million unfavorable combined effect of price and mix and a \$2.4 million unfavorable impact of foreign currency translation.

Revenue from Asia-Pacific operations increased by \$10.6 million, or 192.3%, to \$16.1 million from \$5.5 million in the prior year period due primarily to the favorable \$11.2 million increase in volume combined with a \$0.1 million favorable impact of foreign currency translation, partially offset by a \$0.7 million unfavorable combined effect of price and mix.

Gross profit and gross profit margins

Table 3 sets forth gross profit and gross profit margin for our products and services for the third quarters of 2012 and 2011:

Table 3

Quarter Ended September 30,
2012 2011

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| <i>(Dollars in thousands)</i> | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
|-------------------------------|---------------------|--------------------------------|---------------------|--------------------------------|
| Printers and other products | \$ 15,412 | 45.2% | \$ 5,257 | 35.5% |
| Print materials | 17,410 | 68.3 | 11,981 | 64.9 |
| Services | 14,057 | 45.4 | 10,525 | 43.3 |
| Total | \$ 46,879 | 51.8% | \$ 27,763 | 48.3% |

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On a consolidated basis, gross profit for the third quarter of 2012 increased by \$19.1 million to \$46.9 million from \$27.8 million in the third quarter of 2011, primarily as a result of higher sales from all revenue categories and an increase in our gross profit margin, as discussed below.

Consolidated gross profit margin in the third quarter of 2012 increased by 3.5 percentage points to 51.8% of revenue from 48.3% of revenue for the 2011 quarter. The higher gross profit margin reflected improvements in printers gross profit margin due to the addition of higher margin Z Corp and Vidar printers coupled with our initiative to expand gross profit margins on all professional printers, which more than offset the lower gross profit margin personal printers. The higher gross profit margin also reflected improvements in print materials and services margins.

Printers and other products gross profit for the third quarter of 2012 increased to \$15.4 million from \$5.3 million for the 2011 quarter due to higher revenue and expanded gross profit margin. Gross profit margin for printers increased by 9.7 percentage points to 45.2% from 35.5% in the 2011 quarter primarily due to the addition of higher gross profit margin Z Corp and Vidar printers coupled with our initiative to expand gross profit margins on all professional printers and due to increased sales of software and products with higher gross profit margins, which more than offset the lower margin printers.

Print materials gross profit for the third quarter of 2012 increased by \$5.4 million, or 45.3%, to \$17.4 million from \$12.0 million for the 2011 quarter, and gross profit margin for print materials increased by 3.4 percentage points to 68.3% from 64.9% in the 2011 quarter primarily due to the favorable shift of the mix of materials towards higher gross profit margin personal and professional print materials and integrated materials.

Gross profit for services for the third quarter of 2012 increased by \$3.6 million, or 33.6%, to \$14.1 million from \$10.5 million for the 2011 quarter, and gross profit margin for services increased by 2.1 percentage points to 45.4% from 43.3% in the 2011 quarter. The increase in gross profit was due primarily to higher levels of revenue from all categories. The increase in gross profit margin for services is primarily due to the increase in gross profit margin on printer services and increased revenue from higher gross profit margin consumer services. On-demand custom parts services gross profit margin improved to 42.5% for the third quarter of 2012 from 42.4% in the third quarter of 2011. Printer services had a gross profit margin of 48.8% compared to 46.5% for the third quarter of 2011.

Operating expenses

As shown in Table 4, total operating expenses increased by \$9.4 million, or 49.9%, to \$28.4 million in the third quarter of 2012 from \$19.0 million in the third quarter of 2011. This increase was due to higher selling, general and administrative expenses and higher research and development expenses, both of which are discussed below.

Table 4

| <i>(Dollars in thousands)</i> | Quarter Ended September 30, | | | |
|--|-----------------------------|--------------|------------------|--------------|
| | 2012 | | 2011 | |
| | Amount | % Revenue | Amount | % Revenue |
| Selling, general and administrative expenses | \$ 22,900 | 25.3% | \$ 15,100 | 26.2% |
| Research and development expenses | 5,543 | 6.1 | 3,872 | 6.7 |
| Total operating expenses | \$ 28,443 | 31.4% | \$ 18,972 | 32.9% |

Selling, general and administrative expenses increased by \$7.8 million to \$22.9 million in the third quarter of 2012 compared to \$15.1 million in the third quarter of 2011, and decreased to 25.3% of revenue in 2012 compared to 26.2% for 2011. The increase was due primarily to a \$3.9 million increase in compensation costs due to commissions on higher revenues and higher staffing from acquisitions and continued investment in our consumer growth initiative. SG&A expenses included \$0.3 million of acquisition and severance expenses. Additionally, SG&A expenses were impacted by a \$2.2 million increase in amortization expense due to acquired intangibles, a \$0.9 million increase in marketing expenses and a \$0.5 million increase in occupancy costs related to additional acquired locations, partially offset by a \$1.9 million improvement in legal expenses.

Research and development expenses increased by \$1.6 million, or 43.2%, to \$5.5 million in the third quarter of 2012 from \$3.9 million in the third quarter of 2011. This increase was principally due to a \$1.2 million increase in compensation expense and a \$0.2 million increase in building rent in the 2012 quarter related to new products and consumer solutions development.

Table of Contents***Income from operations***

Our income from operations of \$18.4 million for the third quarter of 2012 improved from \$8.8 million in 2011. See *Gross profit and gross profit margins* and *Operating expenses* above.

The following table sets forth operating income by geographic area for the third quarter of 2012 compared to 2011:

Table 5

| <i>(Dollars in thousands)</i> | Quarter Ended September 30, | |
|-------------------------------|-----------------------------|----------|
| | 2012 | 2011 |
| Income from operations | | |
| United States | \$ 11,601 | \$ 5,840 |
| Germany | 133 | 158 |
| Other Europe | 793 | 1,247 |
| Asia Pacific | 5,909 | 1,556 |
| Subtotal | 18,436 | 8,801 |
| Inter-segment elimination | | (10) |
| Total | \$ 18,436 | \$ 8,791 |

With respect to the U.S., in 2012 and 2011, the changes in operating income by geographic area reflected the same factors discussed above in *Gross profit and gross profit margins* and *Operating expenses*.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. in 2012 and 2011 resulted primarily from changes in transfer pricing which is a function of revenue levels. Asia Pacific operating income also benefitted from our revenue growth and the acquisition completed in the fourth quarter of 2011.

Interest and other expense, net

Interest and other expense, net was \$2.2 million in the third quarter of 2012 compared with \$0.7 million in the 2011 quarter. The higher interest and other expense primarily reflected the interest related to the senior convertible notes issued in the fourth quarter of 2011, which amounted to \$3.2 million of interest expense, of which \$1.0 million represents non-cash amortization. Interest and other expense, net in the third quarter of 2012 also reflected a net gain on acquisition and litigation settlements of \$1.5 million, a loss on conversion of convertible notes of \$1.2 million and foreign exchange gain of \$0.7 million. The \$0.7 million of interest and other expense, net in the third quarter of 2011 reflected foreign exchange losses of \$0.6 million and \$0.1 million of interest expense, partially offset by a nominal amount of interest and other income.

Provision for income taxes

We recorded a \$2.8 million provision for income taxes in the third quarter of 2012 and a \$0.9 million provision for income taxes in the third quarter of 2011. Our 2012 provision for income taxes reflects deferred U.S. income taxes associated with the use of net operating loss carryforwards and tax expense associated with income taxes in non-U.S. jurisdictions. The 2011 provision for income taxes primarily reflects tax expense associated with income taxes in non-U.S. jurisdictions.

We utilized U.S. net deferred tax assets, specifically net operating loss carryforwards and U.S. federal tax credits, in determining the effective tax rate for the year. This resulted in a reduction of our effective tax rate. Absent the use of these net operating loss carryforwards and tax credits, income tax expense would have been \$5.8 million and the income tax rate would have been 35.9 percent. Due to our U.S. net operating loss carryforwards, our rate of cash taxes was 6.5 percent of taxable income.

Our U.S. deferred income tax assets, against which there is a valuation allowance, have been partially utilized in determining the effective tax rate for 2012, with the remainder offset by the recognition of \$18.4 million of deferred income tax liabilities from the acquisitions of Z Corp, Vidar, My Robot Nation, Bspoke and Viztu. We will continue our ongoing review of actual results and anticipated future earnings, and their

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impact on future releases of valuation allowances. As of September 30, 2012, the Company has a \$9.3 million valuation allowance remaining on its U.S. net deferred tax assets.

Table of Contents**Net income**

Our net income for the third quarter of 2012 increased \$6.3 million to \$13.5 million compared to \$7.2 million in the third quarter of 2011. The principal reasons for the increase, which are discussed in more detail above, were:

the \$9.6 million increase in operating income; partially offset by

the \$1.9 million increase in our tax provision; and

the \$1.5 million increase in interest and other expense.

For the quarter ended September 30, 2012, average common shares for basic and diluted earnings per share were 55.9 million and 56.6 million, respectively, and basic and diluted earnings per share were \$0.24. For the quarter ended September 30, 2011, average common shares for basic and diluted earnings per shares were 50.5 million and 51.4 million, respectively, and basic and diluted earnings per share were \$0.14.

Results of Operations Nine Months Comparison**Nine months comparison of revenue by class of product and service**

Table 6 sets forth our change in revenue by class of product and service for the first nine months of 2012 compared to the first nine months of 2011:

Table 6

| <i>(Dollars in thousands)</i> | | Printers and Other | | Print Materials | | Services | | Total | |
|-------------------------------|------------------------------|--------------------|---------|-----------------|-------|-----------|-------|------------|--------|
| | | Products | | | | | | | |
| Revenue | nine months 2011 | \$ 44,519 | 27.7% | \$ 50,483 | 31.4% | \$ 65,561 | 40.9% | \$ 160,563 | 100% |
| Change in revenue: | | | | | | | | | |
| Volume | | | | | | | | | |
| | Core products and services | 111,190 | 249.8 | (1,903) | (3.7) | 25,876 | 39.5 | 135,163 | 84.2 |
| | New products and services | 15,524 | 34.9 | 21,671 | 42.9 | 1,296 | 2.0 | 38,491 | 24.0 |
| | Price/Mix | (84,521) | (189.9) | 7,787 | 15.4 | | | (76,734) | (47.8) |
| | Foreign currency translation | (1,853) | (4.2) | (1,674) | (3.3) | (1,894) | (2.9) | (5,421) | (3.4) |
| | Net change | 40,340 | 90.6 | 25,881 | 51.3 | 25,278 | 38.6 | 91,499 | 57.0 |
| Revenue | nine months 2012 | \$ 84,859 | 33.7% | \$ 76,364 | 30.3% | \$ 90,839 | 36.0% | \$ 252,062 | 100% |

We earn revenues from the sale of printers and other products, print materials and services. On a consolidated basis, revenue for the first nine months of 2012 increased by \$91.5 million, or 57.0%, compared to the first nine months of 2011 across all revenue categories, from acquired and organic growth.

The increase in revenue from printers and other products compared to the first nine months of 2011 is primarily due to increased printer unit sales volume for the first nine months of 2012, driven by increased demand for personal and professional printers and acquired printers revenue from the Z Corp and Vidar acquisitions that we completed in the first quarter of 2012.

Production printers made up \$25.7 million, or 30.9%, of total printers revenue for the first nine months of 2012, compared to \$25.1 million, or 56.4% for the first nine months of 2011.

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Personal and professional printers made up \$57.4 million, or 69.1%, of total printers revenue for the first nine months of 2012, compared to \$19.4 million, or 43.6%, for the first nine months of 2011. This represented a 195.8% increase in personal and professional printers revenue over the 2011 period, including revenue from units from Z Corp and Vidar, which we acquired in 2012.

Due to the relatively high price of certain production printers and a corresponding lengthy selling cycle and relatively low unit volume of these higher priced production printer sales in any particular period, a shift in the timing and concentration of orders and shipments of a few printers from one period to another can significantly affect reported revenue in any given period. Revenue reported for printers sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles. The shift of production printer revenue to a lower percentage of total printer revenue and personal and professional printers making up a larger percentage of printer revenue is consistent with our ongoing plan to accelerate printer adoption by introducing lower priced printers and is partially due to the acquisition of Z Corp and Vidar in 2012, which added only personal and professional printers.

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The \$25.9 million increase in revenue from print materials was aided by the improvement in printers sales and by the continued expansion of printers installed over past periods and by increased materials sales from the acquisitions of RenShape® and Z Corp print materials. Sales of integrated materials represented 62.7% of total materials revenue in the first nine months of 2012 compared to 52.3% in the first nine months of 2011.

The increase in services revenue primarily reflects revenue from our on-demand parts services from both organic growth and acquisitions. Service revenue from on-demand parts services was \$58.3 million, or 64.1% of total service revenue for the first nine months of 2012 compared to \$40.1 million, or 61.1% of total service revenue in the 2011 period.

For the first nine months of 2012, Z Corp and Vidar contributed \$40.2 million of revenue. For the first nine months of 2011, Z Corp and Vidar had revenue of \$40.8 million. If Z Corp and Vidar had been included in our revenue for 2011, our overall corporate growth rate would have been 25.2%.

Excluding revenue of all acquired businesses that we have owned for less than one year, our organic growth rate for the first nine months of 2012 was 24.0%.

In addition to changes in sales volumes, including the impact of revenue from acquisitions, there are two other primary drivers of changes in revenues from one period to another: the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, and the impact of fluctuations in foreign currencies.

As used in this Management's Discussion and Analysis, the price and mix effects relate to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our systems as the trend toward smaller, lower-priced printers has continued and the influence of new printers and print materials on our operating results has grown.

Change in first nine months revenue by geographic region

Each geographic region contributed to our higher level of revenue in first nine months of 2012. Table 7 sets forth the change in revenue by geographic area for the first nine months of 2012 compared to the first nine months of 2011:

Table 7

| <i>(Dollars in thousands)</i> | U.S. | | Europe | | Asia-Pacific | | Total | |
|-------------------------------|------------|--------|-----------|--------|--------------|--------|------------|--------|
| Revenue nine months 2011 | \$ 83,165 | 51.8% | \$ 57,031 | 35.5% | \$ 20,367 | 12.7% | \$ 160,563 | 100% |
| Change in revenue: | | | | | | | | |
| Volume | 125,467 | 150.8 | 26,511 | 46.5 | 21,676 | 106.4 | 173,654 | 108.2 |
| Price/Mix | (67,134) | (80.7) | (6,590) | (11.6) | (3,010) | (14.8) | (76,734) | (47.8) |
| Foreign currency translation | | | (5,989) | (10.5) | 568 | 2.8 | (5,421) | (3.4) |
| Net change | 58,333 | 70.1 | 13,932 | 24.4 | 19,234 | 94.4 | 91,499 | 57.0 |
| Revenue nine months 2012 | \$ 141,498 | 56.1% | \$ 70,963 | 28.2% | \$ 39,601 | 15.7% | \$ 252,062 | 100% |

Revenue from U.S. operations increased by \$58.3 million, or 70.1%, to \$141.5 million in 2012 from \$83.2 million in the first nine months of 2011. The increase was due to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from non-U.S. operations in the first nine months of 2012 increased by \$33.2 million, or 42.9%, to \$110.6 million from \$77.4 million in 2011. Revenue from non-U.S. operations as a percent of total revenue was 43.9% and 48.2%, respectively, for the first nine months of 2012 and 2011. The increase in non-U.S. revenue, excluding the effect of foreign currency translation, was 49.9% in the first nine months of 2012 compared to 24.5% in the first nine months of 2011.

Revenue from European operations increased by \$14.0 million, or 24.4%, to \$71.0 million from \$57.0 million in the prior year period. This increase was due to a \$26.5 million increase in volume, partially offset by \$6.5 million unfavorable combined effect of price and mix and a \$6.0

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million unfavorable impact of foreign currency translation.

Revenue from Asia-Pacific operations increased by \$19.2 million, or 94.4%, to \$39.6 million from \$20.4 million in the prior year period due primarily to the favorable \$21.6 million increase in volume combined with a \$0.6 million favorable impact of foreign currency translation, partially offset by a \$3.0 million unfavorable combined effect of price and mix.

Table of Contents**Gross profit and gross profit margins**

Table 8 sets forth gross profit and gross profit margin for our products and services for the first nine months of 2012 and 2011:

Table 8

| <i>(Dollars in thousands)</i> | Nine Months Ended September 30, | | | |
|-------------------------------|---------------------------------|---------------------|--------------|---------------------|
| | 2012 | | 2011 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| Printers and other products | \$ 36,222 | 42.7% | \$ 16,732 | 37.6% |
| Print materials | 51,381 | 67.3 | 32,539 | 64.5 |
| Services | 41,097 | 45.2 | 26,893 | 41.0 |
| Total | \$ 128,700 | 51.1% | \$ 76,164 | 47.4% |

On a consolidated basis, gross profit for the first nine months of 2012 increased by \$52.5 million to \$128.7 million from \$76.2 million in the first nine months of 2011, primarily as a result of higher sales from all revenue categories and helped by an increase in our gross profit margin, as discussed below.

Consolidated gross profit margin in the first nine months of 2012 increased by 3.7 percentage points to 51.1% of revenue from 47.4% of revenue for the 2011 quarter. The higher gross profit margin reflected improvements in print materials and on-demand parts gross profit margins, coupled with higher gross profit margin printers from Z Corp and Vidar which more than offset the shift towards lower gross profit margin personal and production printers.

Printers and other products gross profit for the first nine months of 2012 increased to \$36.2 million from \$16.7 million for the 2011 quarter, and gross profit margin for printers increased by 5.1 percentage points to 42.7% from 37.6% in the 2011 period primarily due to the addition of higher margin Z Corp and Vidar printers and increased sales of higher margin software and other products.

Print materials gross profit for the first nine months of 2012 increased by \$18.9 million, or 57.9%, to \$51.4 million from \$32.5 million for the 2011 quarter, and gross profit margin for print materials increased by 2.8 percentage points to 67.3% from 64.5% in the 2011 period, primarily due to the favorable shift of the mix of materials towards personal and professional print materials and integrated materials.

Gross profit for services for the first nine months of 2012 increased by \$14.2 million, or 52.8%, to \$41.1 million from \$26.9 million for the 2011 period, and gross profit margin for services increased by 4.2 percentage points to 45.2% from 41.0% in the first nine months of 2011. The increase in gross profit was due primarily to increased gross profit margin of on-demand custom parts which made up an increased portion of service revenue. The increase in gross profit margin for services is primarily due to increased synergies from the integration of acquired custom parts services coupled with improved gross profit margin on printer services. On-demand custom parts services gross profit margin improved 4.9 percentage points to 42.8% for the first nine months of 2012 from 37.9% in the first nine months of 2011. Printer services has a gross profit margin of 48.3% compared to 45.0% for the first nine months of 2011.

Operating expenses

As shown in Table 9, total operating expenses increased by \$34.3 million, or 66.1%, to \$86.3 million in the first nine months of 2012 from \$52.0 million in the first nine months of 2011. This increase was due to higher selling, general and administrative expenses and higher research and development expenses, both of which are discussed below.

Table 9

Nine Months Ended September 30,
2012 2011

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| <i>(Dollars in thousands)</i> | Amount | % Revenue | Amount | % Revenue |
|--|------------------|------------------|------------------|------------------|
| Selling, general and administrative expenses | \$ 70,898 | 28.1% | \$ 42,224 | 26.3% |
| Research and development expenses | 15,397 | 6.1 | 9,737 | 6.1 |
| Total operating expenses | \$ 86,295 | 34.2% | \$ 51,961 | 32.4% |

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Selling, general and administrative expenses increased by \$28.7 million to \$70.9 million in the first nine months of 2012 compared to \$42.2 million in the first nine months of 2011, and increased to 28.1% of revenue in 2012 compared to 26.3% for 2011. The increase was due primarily to a \$15.8 million increase in compensation costs due to commissions on higher revenues and higher staffing from acquisitions and bonuses associated with the 2012 acquisition and integration activities. SG&A expenses included \$3.0 million of acquisition and severance expenses, from which we expect to realize annual savings of \$5.0 million to \$5.5 million. Additionally, SG&A expenses were impacted by a \$6.8 million increase in amortization expense due to acquired intangibles, a \$2.3 million increase in marketing expenses and a \$1.5 million increase in occupancy costs related to additional acquired locations, a \$0.8 million increase in travel expenses and a \$1.4 million increase in bad debts and bank fees, partially offset by a \$3.4 million improvement in legal expenses.

Research and development expenses increased by \$5.7 million, or 58.1%, to \$15.4 million in the first nine months of 2012 from \$9.7 million in the first nine months of 2011, principally due to a \$3.0 million increase in compensation expense and a \$1.0 million increase in operating supplies, a \$0.5 million increase in R&D materials and supplies and a \$0.5 million increase in occupancy costs.

Income from operations

Our income from operations of \$42.4 million for the first nine months of 2012 improved from \$24.2 million in 2011. See *Gross profit and gross profit margins* and *Operating expenses* above.

The following table sets forth operating income by geographic area for the first nine months of 2012 compared to 2011:

Table 10

| <i>(Dollars in thousands)</i> | Nine Months Ended September 30, | |
|-------------------------------|--|-------------|
| | 2012 | 2011 |
| Income from operations | | |
| United States | \$ 24,607 | \$ 12,975 |
| Germany | 949 | 985 |
| Other Europe | 4,225 | 3,880 |
| Asia Pacific | 12,528 | 6,327 |
| Subtotal | 42,309 | 24,167 |
| Inter-segment elimination | 96 | 36 |
| Total | \$ 42,405 | \$ 24,203 |

With respect to the U.S., in 2012 and 2011, the changes in operating income by geographic area reflected the same factors discussed above in *Gross profit and gross profit margins* and *Operating expenses*.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. in 2012 and 2011 resulted primarily from changes in transfer pricing which is a function of revenue levels.

Interest and other expense, net

Interest and other expense, net was \$8.6 million in the first nine months of 2012 compared with \$0.5 million in the 2011 period. The higher interest and other expense, net in 2012 primarily reflected the interest related to the senior convertible notes issued in the fourth quarter of 2011, which amounted to \$9.5 million of interest expense, of which \$2.9 million represents non-cash amortization. Interest and other expense, net in the first nine months of 2012 also reflected a net gain on acquisition and litigation settlements of \$1.5 million, a loss on conversion of convertible notes of \$1.2 million and foreign exchange gain of \$0.1 million. The \$0.5 million of expense, net in the first nine months of 2011 reflected \$0.4 million of interest expense and \$0.2 million of other expense; partially offset by \$0.1 million of other income and a nominal amount of interest income and foreign exchange gain.

Provision for income taxes

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We recorded a \$5.8 million provision for income taxes in the first nine months of 2012 and a \$3.7 million benefit for income taxes in the first nine months of 2011. Our 2012 provision for income taxes reflects deferred U.S. income taxes associated with the use of net operating loss carryforwards and tax expense associated with income taxes in non-U.S. jurisdictions. We released a portion of the valuation allowance related to our U.S. net deferred tax assets during 2011. The 2011 provision for income taxes primarily reflects tax expense associated with income taxes in non-U.S. jurisdictions.

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We utilized U.S. net deferred tax assets, specifically net operating loss carryforwards and U.S. federal tax credits, in determining the effective tax rate for the year. This resulted in a reduction our effective tax rate. Absent the use of these net operating loss carryforwards and tax credits, income tax expense would have been \$11.7 million and the income tax rate would have been 34.7 percent. Due to our U.S. net operating loss carryforwards, our rate of cash taxes was 9.1 percent of taxable income.

Our U.S. deferred income tax assets, against which there is a valuation allowance, have been partially utilized in determining the effective tax rate for 2012, with the remainder offset by the recognition of \$18.4 million of deferred income tax liabilities from the acquisitions of Z Corp, Vidar, My Robot Nation, Bespoke and Viztu. We will continue our ongoing review of actual results and anticipated future earnings, and their impact on future releases of valuation allowances. As of September 30, 2012, the Company has a \$9.3 million valuation allowance remaining on its U.S. net deferred tax assets.

Net income

Our net income for the first nine months of 2012 increased \$0.6 million to \$28.0 million compared to \$27.4 million in the first nine months of 2011. The principal reasons for the increase, which are discussed in more detail above, were:

the \$18.2 million increase in operating income as discussed above; partially offset by

the \$9.5 million increase in our tax provision; and

the \$8.1 million increase in interest and other expense, net.

For the nine months ended September 30, 2012, average common shares for basic and diluted earnings per share were 52.7 million and 53.5 million, respectively, and basic and diluted earnings per share were \$0.53 and \$0.52, respectively. For the nine months ended September 30, 2011, average common shares for basic and diluted earnings per shares were 49.5 million and 50.5 million, respectively, and basic and diluted earnings per share were \$0.55 and \$0.54, respectively.

Other Financial Information

In addition to our results determined under U.S. generally accepted accounting principles (GAAP) discussed above, management believes non-GAAP financial measures, which adjust net income and earnings per share are useful to investors in evaluating our operating performance.

We use non-GAAP financial measures of adjusted net income and adjusted earnings per share to supplement our unaudited condensed consolidated financial statements presented on a GAAP basis to facilitate a better understanding of the impact that several strategic acquisitions had on our financial results.

These non-GAAP financial measures have not been prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies and they are subject to inherent limitations as they reflect the exercise of judgments by our management about which costs, expenses and other items are excluded from our GAAP financial statements in determining our non-GAAP financial measures. We have sought to compensate for these limitations by analyzing current and expected future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP financial statements as required in our public disclosures as well as reconciliations of our non-GAAP financial measures of adjusted net income and adjusted earnings per share to our GAAP financial statements.

The presentation of our non-GAAP financial measures which adjust net income and earnings per share are not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. These non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

Our non-GAAP financial measures, which adjust net income and earnings per share, are adjusted for the following:

Stock-based compensation expenses. We exclude the tax-effected stock-based compensation expenses primarily because they are non-cash.

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Amortization of intangibles. We exclude the tax-effected amortization of intangible assets. The increase in recent periods is primarily in connection with acquisitions of businesses.

Acquisition and severance expenses. We exclude the tax-effected charges associated with the acquisition of businesses and the related severance expenses.

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Non-cash interest expenses. We exclude tax-effected, non-cash interest expenses, primarily related to the amortization costs associated with our outstanding senior convertible notes.

Release of valuation allowance on deferred tax assets. We exclude the tax-effected, non-cash benefit of the releases of portions of the valuation allowance on deferred tax assets.

Loss on conversion of convertible notes. We exclude the tax-effected, loss on conversion of convertible notes.

Net gain on acquisitions and litigation settlements. We exclude the tax-effected, net gain or loss on acquisitions and litigation settlements.

Reconciliation of GAAP Net Income to Non-GAAP Financial Measures**Table 11**

| <i>(Dollars in thousands, except per share)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|-----------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| GAAP net income | \$ 13,517 | \$ 7,220 | \$ 28,029 | \$ 27,415 |
| Stock-based compensation | 1,035 | 593 | 3,296 | 1,827 |
| Amortization of intangibles ^{(a) (b)} | 2,709 | 855 | 8,558 | 2,807 |
| Acquisition and severance expenses | 232 | 445 | 2,967 | 1,151 |
| Non-cash interest expense | 863 | | 2,632 | |
| Loss on convertible notes | 1,096 | | 1,096 | |
| Net gain on acquisitions and litigation settlements | (1,296) | | (1,296) | |
| Release of valuation allowance on deferred tax assets | | | | (6,221) |
| Non-GAAP adjusted net income | \$ 18,156 | \$ 9,113 | \$ 45,282 | \$ 26,979 |
| Non-GAAP adjusted basic earnings per share | \$ 0.33 | \$ 0.18 | \$ 0.86 | \$ 0.55 |
| Non-GAAP adjusted diluted earnings per share | \$ 0.32 | \$ 0.18 | \$ 0.85 | \$ 0.53 |

(a) Represents amortization expense for the quarter ended September 30, 2012 and 2011, of which \$0.1 million each period is included in cost of sales and the remaining \$2.6 million and \$0.8 million, respectively, is included in operating expenses.

(b) Represents amortization expense for the nine months ended September 30, 2012 and 2011, of which \$0.1 million and \$0.2 million, respectively, is included in cost of sales and the remaining \$8.5 million and \$2.6 million, respectively, is included in operating expenses.

Financial Condition and Liquidity**Table 12**

| <i>(Dollars in thousands)</i> | September 30, 2012 | December 31, 2011 |
|-------------------------------|--------------------|-------------------|
| Cash and cash equivalents | \$ 183,931 | \$ 179,120 |
| Working capital | \$ 222,299 | \$ 202,357 |
| Total stockholders' equity | \$ 416,490 | \$ 254,788 |

Our unrestricted cash and cash equivalents increased by \$4.8 million to \$183.9 million at September 30, 2012 from \$179.1 million at December 31, 2011. We generated \$44.0 million of cash from operating activities. Cash from operations consisted of \$28.0 million net income, including \$28.3 million of non-cash charges and \$12.3 million of cash used by net changes in operating accounts, including a \$10.0 million benefit due to a timing difference in accrued liabilities at September 30, 2012 that will reverse in the fourth quarter. We used \$150.7 million of cash in investing activities. See *Cash flow* and *Capitalized lease obligations* below.

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

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Our net working capital increased by \$19.9 million to \$222.3 million at September 30, 2012 from \$202.4 million at December 31, 2011, primarily due to the factors discussed below.

Our unrestricted cash and cash equivalents increased by \$4.8 million to \$183.9 million at September 30, 2012 from \$179.1 million at December 31, 2011. This increase primarily was due to cash from operations of \$44.0 million and \$111.4 million from financing activities in the first nine months of 2012 which included \$106.9 million of net proceeds from our common stock offering completed in the second quarter of 2012, partially offset by \$150.7 million of net cash used in investing activities.

Accounts receivable, net, increased by \$18.6 million to \$69.8 million at September 30, 2012 from \$51.2 million at December 31, 2011. Our gross accounts receivable increased by \$20.7 million from December 31, 2011, primarily due to acquiring the receivables of Z Corp and Vidar and our changing business model, which includes higher revenue from custom parts services and materials, both of which are generally sold on credit terms and which make up a larger percent of our total sales. With an increased portion of our sales on credit terms, our days sales outstanding increased to 71 days at September 30, 2012 from 67 days at December 31, 2011 and accounts receivable more than 90 days past due decreased to 8.2% of gross receivables from 11.9% at December 31, 2011.

Inventories, net increased by \$16.0 million to \$41.3 million at September 30, 2012 from \$25.3 million at December 31, 2011. This increase resulted primarily from a \$14.1 million increase in raw materials inventory and a \$2.4 million increase in finished goods inventory due to the acquisition of Z Corp and Vidar and due to the timing of sales and revenue recognition at quarter-end, which also impacts our backlog. We maintained \$3.8 million of inventory reserves at September 30, 2012 and \$2.5 million of such reserves at December 31, 2011.

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

Accounts payable increased by \$0.8 million to \$26.7 million at September 30, 2012 from \$25.9 million at December 31, 2011. The increase primarily related to the normal timing of our scheduled expense payments, an increase in payables related to our acquisition of Z Corp and Vidar, and the increase in inventories, which is explained above.

Accrued and other liabilities increased by \$16.8 million to \$33.6 million at September 30, 2012 from \$16.8 million at December 31, 2011. This increase is primarily due to the benefit of a \$10.0 million accrual due to a timing difference which will reverse in the next quarter. Accrued liabilities also increased due to an increase in accrued compensation related to higher compensation cost and an increase in earnouts related to acquisitions.

The changes in the first nine months of 2012 that make up the other components of working capital not discussed above arose in the ordinary course of business.

Differences between the amounts of working capital item changes in the cash flow statement and the balance sheet changes for the corresponding items are primarily the result of foreign currency translation adjustments.

We have relied on our unrestricted cash, cash flow from operations and capital markets transactions to meet our cash requirements for working capital, capital expenditures and acquisitions. However, it is possible that we may need to raise additional funds to finance our activities beyond the next twelve months or to consummate significant acquisitions of other businesses, assets, products or technologies. If needed, we may be able to raise such funds by issuing equity or debt securities to the public or selected investors, or by borrowing from financial institutions, selling assets or restructuring debt.

Cash flow

Table 12 summarizes the cash provided by or used in operating activities, investing activities and financing activities, as well as the effect of changes in foreign currency exchange rates on cash, for the first nine months of 2012 and 2011.

Table 13

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| | Nine Months Ended September 30, | |
|--|--|------------------|
| | 2012 | 2011 |
| <i>(Dollars in thousands)</i> | | |
| Cash provided by operating activities | \$ 44,011 | \$ 18,783 |
| Cash used in investing activities | (150,715) | (47,430) |
| Cash provided by financing activities | 111,351 | 64,071 |
| Effect of exchange rate changes on cash | 164 | (156) |
| Net increase in cash and cash equivalents | \$ 4,811 | \$ 35,268 |

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Cash flow from operating activities

For the nine months ended September 30, 2012, our operating activities provided \$44.0 million of net cash. This source of cash consisted primarily of net income plus the effects of non-cash items and changes in working capital, which are described above.

For the nine months ended September 30, 2011, our operating activities provided \$18.8 million of net cash. This source of cash consisted of our \$27.4 million net income, \$5.4 million of non-cash items included in our net income and \$14.0 million of cash used by net changes in operating accounts.

Cash flow from investing activities

Net cash used in investing activities in the first nine months of 2012 increased to \$150.7 million from \$47.4 million for the first nine months of 2011. This increase was primarily due to \$148.3 million of cash paid for acquisitions in the first nine months of 2012 compared to \$44.8 million paid for acquisitions in the 2011 period.

Cash flow from financing activities

Net cash provided by financing activities increased to \$111.4 million for the nine months ended September 30, 2012 compared to \$64.1 million in the 2011 period. Cash from financing activities in the first nine months of 2012 was from \$106.9 million of net proceeds from our Common Stock offering in the second quarter and \$4.6 million of stock-based compensation proceeds, partially offset by capital lease payments. Cash from financing activities in the nine months ended September 30, 2011 included \$62.1 million of net proceeds resulting from our Common Stock offering in March 2011 coupled with \$2.4 million of stock-based compensation proceeds.

Contractual commitments and off-balance sheet arrangements

Debt

In November 2011, we issued 5.50% Senior Convertible Notes due 2016 (the Notes) in an aggregate principal amount of \$152.0 million. These Notes bear interest at a fixed rate of 5.50% per annum, payable June 15 and December 15 of each year while they are outstanding, beginning June 15, 2012. The net proceeds of the Notes were used to fund the acquisition of Z Corp and Vidar and for general corporate purposes. See Note 8 to the unaudited condensed consolidated financial statements.

The Notes have an initial conversion rate of 46.6021 shares of Common Stock per \$1,000 principal amount of Notes, which amounts to a conversion price of \$21.46 per common share. Upon conversion, the Company has the option to pay cash or issue Common Stock, or a combination thereof. The aggregate principal amount of these Notes then outstanding matures on December 15, 2016, unless earlier converted, redeemed or repurchased in accordance with the terms of the Notes.

Conditions for conversion have been satisfied and the notes are convertible. During the third quarter of 2012 note holders converted \$11.5 million aggregate principal amount of notes, which converted into 0.5 million shares of common stock. The Company recognized a \$1.2 million loss on conversion of these notes.

The Notes contain a number of covenants covering, among other things, payment of notes, reporting, maintenance of existence and payment of taxes. Failure to comply with these covenants, or any other event of default, could result in acceleration of the principal amount and accrued and unpaid interest on the notes. We were in compliance with all covenants as of September 30, 2012. See Note 8 to the unaudited condensed consolidated financial statements.

Capitalized lease obligations

Our principal contractual commitments consist of capitalized lease obligations. Our capitalized lease obligations, which primarily relate to a lease agreement that we entered into during 2006, with respect to our Rock Hill facility which covers the facility itself, decreased to \$7.7 million at September 30, 2012 from \$7.8 million at December 31, 2011 primarily due to scheduled payments of principal on capital lease installments.

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Our outstanding capitalized lease obligations carrying values at September 30, 2012 and December 31, 2011 were as follows:

Table 14

| <i>(Dollars in thousands)</i> | September 30, 2012 | December 31, 2011 |
|--|--------------------|-------------------|
| Capitalized lease obligations: | | |
| Current portion of capitalized lease obligations | \$ 159 | \$ 163 |
| Capitalized lease obligations, long-term portion | 7,494 | 7,609 |
| Total capitalized lease obligations | \$ 7,653 | \$ 7,772 |

Other contractual commitments

For certain of our recent acquisitions we are obligated for the payment of deferred purchase price totaling \$1.9 million, due in 2012 and 2013, compared to \$1.4 million at December 31, 2011. Certain of our recent acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total amount of liabilities recorded for these earnouts at September 30, 2012 is \$6.1 million, compared to \$1.9 million at December 31, 2011. See Note 2 for details of acquisitions and related commitments.

As of September 30, 2012, we have supply commitments related to printer assembly that total \$13.1 million compared to \$10.9 million at December 31, 2011.

Off-balance sheet arrangements

We have no off-balance sheet arrangements and do not utilize any structured debt, special purpose, or similar unconsolidated entities for liquidity or financing purposes.

Financial instruments

We conduct business in various countries using both the functional currencies of those countries and other currencies to effect cross border transactions. As a result, we are subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, we endeavor to match assets and liabilities in the same currency on our balance sheet and those of our subsidiaries in order to reduce these risks. We also, when we consider it to be appropriate, enter into foreign currency contracts to hedge exposures arising from those transactions.

We do not hedge or trade for speculative purposes, and our foreign currency contracts are generally short-term in nature, typically maturing in 90 days or less. We have elected not to prepare and maintain the documentation to qualify for hedge accounting treatment under ASC 815,

Derivatives and Hedging, and therefore, we recognize all gains and losses (realized or unrealized) in interest and other expense, net in our unaudited condensed consolidated statements of operations and comprehensive income.

There were no foreign exchange contracts at September 30, 2012 or December 31, 2011. See Note 7 of the unaudited condensed consolidated financial statements.

Changes in the fair value of derivatives are recorded in interest and other expense, net, in our unaudited condensed consolidated statements of operations and comprehensive income. Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid and other current assets or in accrued liabilities in our unaudited condensed consolidated balance sheets.

The total impact of foreign currency related items on our unaudited condensed consolidated statements of operations and comprehensive income was a \$0.1 million gain for the nine months ended September 30, 2012 and a nominal gain for the nine months ended September 30, 2011.

Recent Accounting Pronouncements

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For information with respect to recent accounting pronouncements and the impact of these pronouncements on our condensed consolidated financial statements, see Note 1 to the unaudited condensed consolidated financial statements.

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Critical Accounting Policies and Significant Estimates

For a discussion of our critical accounting policies and estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Significant Estimates in our Annual Report on Form 10-K for the year ended December 31, 2011.

Forward-Looking Statements

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

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or that include terms such as believes, belief, expects, intends, anticipates or plans to be uncertain and forward-looking. Forward-looking statements may include comments as to our beliefs and expectations as to future events and trends affecting our business. Forward-looking statements are based upon management's current expectations concerning future events and trends and are necessarily subject to uncertainties, many of which are outside of our control. The factors stated under the heading Cautionary Statements and Risk Factors set forth below and those described in our other SEC reports, including our Form 10-K for the year ended December 31, 2011, as well as other factors, could cause actual results to differ materially from those reflected or predicted in forward-looking statements.

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

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those reflected in or suggested by forward-looking statements. Any forward-looking statement you read in this Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified or referred to in this Form 10-Q and our other SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2011, which would cause actual results to differ from those referred to in forward-looking statements.

Cautionary Statements and Risk Factors

We recognize that we are subject to a number of risks and uncertainties that may affect our future performance. The risks and uncertainties described in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2011 are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of these risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2011 also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of market risks at December 31, 2011, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2011. During the first nine months of 2012, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2011.

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Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

As of September 30, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act) pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. These controls and procedures were designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures. Based on this evaluation, including an evaluation of the rules referred to above in this Item 4, management has concluded that our disclosure controls and procedures were effective as of September 30, 2012 to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

There were no material changes in our internal controls over financial reporting during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth in Note 15 of the unaudited condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Mine Safety Disclosures.

Item 6. Exhibits.

The following exhibits are included as part of this filing and incorporated herein by this reference:

- 3.1 Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 3.1 to Form 8-B filed on August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.)
- 3.2 Amendment to Certificate of Incorporation filed on May 23, 1995. (Incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-2/A, filed on May 25, 1995.)
- 3.3 Certificate of Designation of Rights, Preferences and Privileges of Preferred Stock. (Incorporated by reference to Exhibit 2 to Registrant's Registration Statement on Form 8-A filed on January 8, 1996.)
- 3.4 Certificate of Designation of the Series B Convertible Preferred Stock, filed with the Secretary of State of Delaware on May 2, 2003. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed on May 7, 2003.)
- 3.5 Certificate of Elimination of Series A Preferred Stock filed with the Secretary of State of Delaware on March 4, 2004. (Incorporated reference to Exhibit 3.6 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.)
- 3.6 Certificate of Elimination of Series B Preferred Stock filed with the Secretary of State of Delaware on September 9, 2006. (Incorporated reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on September 9, 2006.)
- 3.7 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 19, 2004. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, filed on August 5, 2004.)
- 3.8 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 17, 2005. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed on August 1, 2005.)
- 3.9 Certificate of Designations, Preferences and Rights of Series A Preferred Stock, filed with the Secretary of State of Delaware on December 9, 2008. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on December 9, 2008.)
- 3.10 Certificate of Elimination of Series A Preferred Stock, filed with the Secretary of State of Delaware on November 14, 2011. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on November 15, 2011.)
- 3.11 Amended and Restated By-Laws. (Incorporated by reference to Exhibit 3.2 of Registrant's Current Report on Form 8-K filed on December 1, 2006.)
- 3.12 Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on October 7, 2011. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed on October 7, 2011.)
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated October 25, 2012.
- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated October 25, 2012.

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| | |
|---------|---|
| 32.1 | Certification of Principal Executive Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated October 25, 2012. |
| 32.2 | Certification of Principal Financial Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated October 25, 2012. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.

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SIGNATURE

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

3D SYSTEMS CORPORATION

By */s/ DAMON J. GREGOIRE*
Damon J. Gregoire
Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

(Duly Authorized Officer)

Date: October 25, 2012