

3D SYSTEMS CORP
Form 10-Q
May 06, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

**For the quarterly period ended March 31, 2009
OR**

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

For the transition period from _____ to _____

**Commission File No. 001-34220
3D SYSTEMS CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(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

Smaller reporting
company

(Do not check if 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 o No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Shares of Common Stock, par value \$0.001, outstanding as of April 30, 2009: 22,411,030

3D SYSTEMS CORPORATION
Quarterly Report on Form 10-Q for the
Quarter Ended March 31, 2009
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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(in thousands, except par value)</i>	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,417	\$ 22,164
Accounts receivable, net of allowance for doubtful accounts of \$2,221 (2009) and \$2,015 (2008)	16,819	25,276
Inventories, net of reserves of \$2,967 (2009) and \$3,156 (2008)	19,895	21,018
Prepaid expenses and other current assets	2,354	1,601
Deferred income tax assets	995	935
Restricted cash	111	3,309
Total current assets	63,591	74,303
Property and equipment, net	22,890	24,072
Intangible assets, net	3,378	3,663
Goodwill	47,364	48,010
Other assets, net	2,962	2,954
	\$ 140,185	\$ 153,002
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Industrial development bonds	\$	\$ 3,085
Current portion of capitalized lease obligations	199	195
Accounts payable	13,716	17,133
Accrued liabilities	6,259	8,057
Customer deposits	764	1,136
Deferred revenue	8,851	9,418
Total current liabilities	29,789	39,024
Long-term portion of capitalized lease obligations	8,416	8,467
Other liabilities	3,158	3,277
Total liabilities	41,363	50,768
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, authorized 5,000 shares, none issued		
Common stock, \$0.001 par value, authorized 60,000 shares; 22,484 (2009) and 22,424 (2008) issued	22	22
Additional paid-in capital	176,608	176,180
Treasury stock, at cost; 65 shares (2009) and 59 shares (2008)	(126)	(120)

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Accumulated deficit	(80,641)	(78,557)
Accumulated other comprehensive income	2,959	4,709
Total stockholders' equity	98,822	102,234
	\$ 140,185	\$ 153,002

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended March 31,	
	2009	2008
Revenue:		
Products	\$ 15,489	\$ 22,765
Services	8,542	9,022
 Total revenue	 24,031	 31,787
 Cost of sales:		
Products	7,937	12,453
Services	5,615	6,634
 Total cost of sales	 13,552	 19,087
 Gross profit	 10,479	 12,700
 Operating expenses:		
Selling, general and administrative	9,188	13,064
Research and development	2,898	3,597
 Total operating expenses	 12,086	 16,661
 Loss from operations	 (1,607)	 (3,961)
Interest and other expense (income), net	227	(656)
 Loss before income taxes	 (1,834)	 (3,305)
Provision for income taxes	250	386
 Net loss	 \$ (2,084)	 \$ (3,691)
 Net loss per share basic and diluted	 \$ (0.09)	 \$ (0.17)

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(in thousands)</i>	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (2,084)	\$ (3,691)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	(121)	(108)
Depreciation and amortization	1,607	1,350
Provisions for bad debts	703	421
Stock-based compensation	389	480
Loss on the disposition of property and equipment		14
Changes in operating accounts:		
Accounts receivable	6,449	7,544
Inventories	472	(6,862)
Prepaid expenses and other current assets	(827)	(140)
Accounts payable	(2,520)	(5,139)
Accrued liabilities	(1,612)	(2,014)
Customer deposits	(350)	1,188
Deferred revenue	(395)	(505)
Other operating assets and liabilities	(29)	369
Net cash provided by (used in) operating activities	1,682	(7,093)
Cash flows used in investing activities:		
Purchases of property and equipment	(285)	(1,882)
Additions to license and patent costs	(37)	(173)
Net cash used in investing activities	(322)	(2,055)
Cash flows provided by financing activities:		
Stock option and restricted stock proceeds	33	1,081
Repayment of long-term debt	(49)	(165)
Repayment of short-term borrowings	(3,085)	
Restricted cash	3,198	
Net cash provided by financing activities	97	916
Effect of exchange rate changes on cash	(204)	475
Net increase (decrease) in cash and cash equivalents	1,253	(7,757)
Cash and cash equivalents at the beginning of the period	22,164	29,689
Cash and cash equivalents at the end of the period	\$ 23,417	\$ 21,932

Supplemental Cash Flow Information:

Interest payments	\$	161	\$	217
Income tax payments		67		240
Non-cash items:				
Transfer of equipment from inventory to property and equipment, net(a)		32		3,572
Transfer of equipment to inventory from property and equipment, net(b)		33		218

(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. The transfer of \$3,002 of equipment purchased from a large customer is included in transfers to property and equipment in the period ended March 31, 2008.

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

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(Unaudited)

	Common Stock			Treasury Stock		Accumulated		Total
	Par Value	Additional Paid in Capital	Shares	Amount	Accumulated Deficit	Other Comprehensive Income	Stockholders Equity	
<i>(In thousands, except par value)</i>								
Balance at December 31, 2008	22,424	\$ 22	\$ 176,180	59	\$ (120)	\$ (78,557)	\$ 4,709	\$ 102,234
Issuance (repurchase) of restricted stock, net	60	(a)	40	6	(6)			34
Stock compensation expense		(a)	388					388
Net loss						(2,084)		(2,084)
Foreign currency translation adjustment							(1,750)	(1,750)
Balance at March 31, 2009	22,484	\$ 22	\$ 176,608	65	\$ (126)	\$ (80,641)	\$ 2,959	\$ 98,822

(a) Amounts not shown due to rounding.

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

<i>(in thousands)</i>	Three Months Ended March 31,	
	2009	2008
Net loss	\$ (2,084)	\$ (3,691)
Other comprehensive loss:		
Unrealized gain (loss) on pension obligation	(10)	9
Foreign currency translation adjustments	(1,740)	2,314
Comprehensive loss, net	\$ (3,834)	\$ (1,368)

See accompanying notes to condensed consolidated financial statements.

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3D SYSTEMS CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share data)
(Unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of 3D Systems Corporation and its subsidiaries (collectively, the Company). All significant intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim reports. Accordingly, they do not include all of 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, 2008.

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 three months ended March 31, 2009 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 have been reclassified to conform to their current-year presentation. These reclassifications include \$730 of foreign exchange gain, that had previously been included in product cost of sales for the first quarter of 2008, to interest and other expense (income), net in our condensed consolidated statement of operations. This had the effect of reducing the Company's previously reported gross profit and interest and other expense (income), net for the first quarter of 2008 by \$730 and of increasing operating loss for that quarter by the same amount. It did not affect any of the other line items on the Company's condensed consolidated statement of operations for 2008.

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

(2) Inventories

Components of inventories, net at March 31, 2009 and December 31, 2008 were as follows:

<i>(in thousands)</i>	2009	2008
Raw materials	\$ 1,484	\$ 1,635
Inventory held by assemblers	43	34
Work in process	22	146
Finished goods and parts	21,313	22,359
Total cost	22,862	24,174
Less: reserves	(2,967)	(3,156)
Inventories, net	\$ 19,895	\$ 21,018

(3) Property and Equipment

Property and equipment at March 31, 2009 and December 31, 2008 were as follows:

<i>(in thousands, except years)</i>	2009	2008	Useful Life (in years)
Building	\$ 8,566	\$ 8,566	25

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Machinery and equipment	27,185	27,492	3-5
Capitalized software ERP	3,094	3,096	5
Office furniture and equipment	3,340	3,404	5
Leasehold improvements	7,572	7,567	Life of lease
Rental equipment	1,064	1,116	5
Construction in progress	228	298	N/A
Total property and equipment	51,049	51,539	
Less: Accumulated depreciation and amortization	(28,159)	(27,467)	
Total property and equipment, net	\$ 22,890	\$ 24,072	

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Depreciation and software amortization expense for the three months ended March 31, 2009 and 2008 were \$1,285 and \$950, respectively. For each of the three months ended March 31, 2009 and 2008, the Company recognized software amortization expense of \$134 for its capitalized enterprise resource planning (ERP) system.

(4) Intangible Assets

Intangible assets other than goodwill at March 31, 2009 and December 31, 2008 were as follows:

<i>(in thousands)</i>	March 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net
Licenses	\$ 5,875	\$ (5,214)	\$ 661
Patent costs	16,083	(13,366)	2,717
Other intangible assets	8,968	(8,968)	
Total	\$ 30,926	\$ (27,548)	\$ 3,378

<i>(in thousands)</i>	December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net
Licenses	\$ 5,875	\$ (5,090)	\$ 785
Patent costs	16,078	(13,341)	2,737
Other intangible assets	8,968	(8,827)	141
Total	\$ 30,921	\$ (27,258)	\$ 3,663

For the three months ended March 31, 2009 and 2008, the Company capitalized \$48 and \$173, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

Amortization expense related to licenses for the three months ended March 31, 2009 and 2008 was \$124 in each period. Amortization expense of patent costs for the three months ended March 31, 2009 and 2008 was \$57 and \$77, respectively. Amortization expense related to other intangible assets for the three months ended March 31, 2009 and 2008 was \$141 and \$199, respectively.

(5) Accrued and Other Liabilities

Accrued liabilities at March 31, 2009 and December 31, 2008 were as follows:

<i>(in thousands)</i>	2009	2008
Compensation and benefits	\$ 2,354	\$ 2,239
Vendor accruals	1,148	1,880
Accrued professional fees	397	1,064
Accrued taxes	1,175	1,148
Royalties payable	601	297
Non-contractual obligation to repurchase inventory held by assemblers	43	34
Accrued interest	52	54
Accrued other	489	1,341
	\$ 6,259	\$ 8,057

Other liabilities at March 31, 2009 and December 31, 2008 were as follows:

(in thousands)

	2009	2008
Defined benefit pension obligation	\$ 2,683	\$ 2,801
Other long-term liabilities	475	476
	\$ 3,158	\$ 3,277

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The Company's debt, excluding capitalized lease obligations, at March 31, 2009 and December 31, 2008 was \$0 and \$3,085, respectively, and represented industrial development bonds related to the Grand Junction facility, which was sold in December 2008. The remaining outstanding bonds, plus accrued interest, were redeemed in January 2009. The interest rate on the bonds at December 31, 2008 was 1.28%.

Interest expense totaled \$159 in the first quarter of 2009 compared to \$208 in the first quarter of 2008, while interest income was insignificant in the first quarter of 2009 compared to \$226 in the first quarter of 2008, all reflecting the lower level of debt and lower interest rates earned on short-term investments in 2009. Other expense totaled an insignificant amount in the first quarter of 2009 compared to \$210 in the first quarter of 2008.

(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. The Company also, when it considers it to be appropriate, enters into foreign currency contracts to hedge exposures arising from those transactions. The Company has not adopted hedge accounting under Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivatives and Hedging Activities, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 161, and all gains and losses (realized or unrealized) are recognized in Interest and other expense (income), net in the condensed consolidated statements of operations.

At March 31, 2009 and December 31, 2008, these contracts included contracts for the purchase of currencies other than the U.S. dollar. The dollar equivalent of the foreign currency contracts and the related fair values as of March 31, 2009 and December 31, 2008 were as follows:

<i>(in thousands)</i>	Foreign Currency Purchase Contracts	
	2009	2008
Notional amount	\$ 2,458	\$ 1,680
Fair value	2,497	1,699
Net unrealized gain	\$ 39	\$ 19

The foreign currency contracts outstanding at March 31, 2009 expire at various times between April 1, 2009 and May 27, 2009. The foreign currency contracts outstanding at December 31, 2008 expired at various times between January 5, 2009 and February 11, 2009.

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

The total impact of foreign currency items on the condensed consolidated statements of operations for the three months ended March 31, 2009 and 2008 reflected a loss of \$122 and a gain of \$730, respectively.

(8) Stock-based Compensation Plans

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations. Stock-based compensation expense for the three months ended March 31, 2009 and 2008 was as follows:

<i>(in thousands)</i>	Three Months Ended March 31,	
	2009	2008
Restricted stock awards	\$ 389	\$ 480

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The number of shares of restricted common stock awarded and the weighted average fair value per share during the three-month periods ended March 31, 2009 and 2008 were as follows: