

3D SYSTEMS CORP
Form 10-Q
August 03, 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 June 30, 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 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 July 27, 2009: 22,625,137

3D SYSTEMS CORPORATION
Quarterly Report on Form 10-Q for the
Quarter Ended June 30, 2009
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3D SYSTEMS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| <i>(in thousands, except par value)</i> | June 30, 2009 | December 31, 2008 |
|---|--------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,029 | \$ 22,164 |
| Accounts receivable, net of allowance for doubtful accounts of \$2,273 (2009) and \$2,015 (2008) | 16,214 | 25,276 |
| Inventories, net of reserves of \$3,061 (2009) and \$3,156 (2008) | 19,108 | 21,018 |
| Prepaid expenses and other current assets | 1,866 | 1,601 |
| Deferred income tax assets | 784 | 935 |
| Restricted cash | 107 | 3,309 |
| | | |
| Total current assets | 62,108 | 74,303 |
| Property and equipment, net | 21,990 | 24,072 |
| Intangible assets, net | 3,236 | 3,663 |
| Goodwill | 47,880 | 48,010 |
| Other assets, net | 3,017 | 2,954 |
| | \$ 138,231 | \$ 153,002 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Industrial development bonds | \$ | \$ 3,085 |
| Current portion of capitalized lease obligations | 203 | 195 |
| Accounts payable | 11,414 | 17,133 |
| Accrued liabilities | 6,941 | 8,057 |
| Customer deposits | 587 | 1,136 |
| Deferred revenue | 8,107 | 9,418 |
| | | |
| Total current liabilities | 27,252 | 39,024 |
| Long-term portion of capitalized lease obligations | 8,364 | 8,467 |
| Other liabilities | 3,364 | 3,277 |
| | | |
| Total liabilities | 38,980 | 50,768 |
| | | |
| Commitments and contingencies | | |
| 3D Systems stockholders' equity: | | |
| Preferred Stock, authorized 5,000 shares, none issued | | |
| Common stock, \$0.001 par value, authorized 60,000 shares; 22,698 (2009) and 22,424 (2008) issued | 23 | 22 |
| Additional paid-in capital | 177,157 | 176,180 |
| Treasury stock, at cost; 72 shares (2009) and 59 shares (2008) | (133) | (120) |

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| | | |
|--|------------|------------|
| Accumulated deficit | (81,958) | (78,557) |
| Accumulated other comprehensive income | 4,158 | 4,709 |
| Total 3D Systems stockholders' equity | 99,247 | 102,234 |
| Noncontrolling interest | 4 | |
| Total Equity | 99,251 | 102,234 |
| | \$ 138,231 | \$ 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> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| Products | \$ 17,584 | \$ 27,713 | \$ 33,073 | \$ 50,478 |
| Services | 7,121 | 8,943 | 15,663 | 17,965 |
| Total revenue | 24,705 | 36,656 | 48,736 | 68,443 |
| Cost of sales: | | | | |
| Products | 9,443 | 15,510 | 17,380 | 27,963 |
| Services | 4,432 | 7,541 | 10,047 | 14,175 |
| Total cost of sales | 13,875 | 23,051 | 27,427 | 42,138 |
| Gross profit | 10,830 | 13,605 | 21,309 | 26,305 |
| Operating expenses: | | | | |
| Selling, general and administrative | 8,818 | 12,555 | 18,006 | 25,619 |
| Research and development | 2,855 | 3,578 | 5,753 | 7,175 |
| Total operating expenses | 11,673 | 16,133 | 23,759 | 32,794 |
| Loss from operations | (843) | (2,528) | (2,450) | (6,489) |
| Interest and other expense (income), net | 260 | 485 | 487 | (171) |
| Loss before income taxes | (1,103) | (3,013) | (2,937) | (6,318) |
| Provision for income taxes | 210 | 310 | 460 | 696 |
| Net loss | (1,313) | (3,323) | (3,397) | (7,014) |
| Less: Net income attributable to noncontrolling interest | 4 | | 4 | |
| Net loss attributable to 3D Systems | \$ (1,317) | \$ (3,323) | \$ (3,401) | \$ (7,014) |
| Net loss per share basic and diluted | \$ (0.06) | \$ (0.15) | \$ (0.15) | \$ (0.31) |

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> | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net loss attributable to 3D Systems | \$ (3,401) | \$ (7,014) |
| Net income attributable to noncontrolling interest | 4 | |
| Net loss | (3,397) | (7,014) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Deferred income taxes | 140 | 110 |
| Depreciation and amortization | 3,019 | 3,123 |
| Provision for bad debts | 879 | 287 |
| Stock-based compensation | 731 | 856 |
| Gain on the disposition of property and equipment | (21) | |
| Changes in operating accounts: | | |
| Accounts receivable | 7,725 | 4,404 |
| Inventories | 1,827 | (7,589) |
| Prepaid expenses and other current assets | (144) | 848 |
| Accounts payable | (5,335) | (1,616) |
| Accrued liabilities | (1,161) | (2,749) |
| Customer deposits | (553) | 1,961 |
| Deferred revenue | (1,448) | (783) |
| Other operating assets and liabilities | 55 | (219) |
| Net cash provided by (used in) operating activities | 2,317 | (8,381) |
| Cash flows used in investing activities: | | |
| Purchases of property and equipment | (654) | (3,244) |
| Additions to license and patent costs | (83) | (230) |
| Proceeds from disposition of property and equipment | 26 | |
| Net cash used in investing activities | (711) | (3,474) |
| Cash flows provided by financing activities: | | |
| Restricted stock proceeds and stock options, net | 232 | 1,091 |
| Repayment of long-term debt | (96) | (210) |
| Repayment of short-term borrowings | (3,085) | |
| Restricted cash | 3,204 | |
| Net cash provided by financing activities | 255 | 881 |
| Effect of exchange rate changes on cash | 4 | 394 |
| Net increase (decrease) in cash and cash equivalents | 1,865 | (10,580) |

| | | |
|--|-----------|-----------|
| Cash and cash equivalents at the beginning of the period | 22,164 | 29,689 |
| Cash and cash equivalents at the end of the period | \$ 24,029 | \$ 19,109 |

Supplemental Cash Flow Information:

| | | |
|--|--------|--------|
| Interest payments | \$ 324 | \$ 483 |
| Income tax (receipts) payments | (480) | 408 |
| Non-cash items: | | |
| Transfer of equipment from inventory to property and equipment, net(a) | 47 | 3,944 |
| Transfer of equipment to inventory from property and equipment, net(b) | 230 | 1,518 |

(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 June 30, 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 EQUITY
(Unaudited)

| | Equity Attributable to 3D Systems Stockholders | | | | | | | | | |
|--|--|---------|------------|--------|----------|--------------------------|----------|------------|------------|-----------|
| | Common Stock | | | | | Accumulated Total Equity | | | | |
| | Par | | Additional | | Treasury | | Other | | Systems to | |
| | Value | Paid in | Capital | Share | Amount | Deficit | Income | Stock | Non- | Total |
| Shares | \$0.001 | Capital | Share | Amount | Deficit | Income | Equity | Interest | 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 | | 102,234 |
| Issuance (repurchase) of restricted stock, net | 259 | 1 | 308 | 13 | (13) | | | 296 | | 296 |
| Stock compensation expense | | | (a) 585 | | | | | 585 | | 585 |
| Exercise of stock options | 15 | | (a) 84 | | | | | 84 | | 84 |
| Net (loss) gain | | | | | | (3,401) | | (3,401) | 4 | (3,397) |
| Foreign currency translation adjustment | | | | | | | | (551) | | (551) |
| Balance at June 30, 2009 | 22,698 | \$ 23 | \$ 177,157 | 72 | \$ (133) | \$ (81,958) | \$ 4,158 | \$ 99,247 | \$ 4 | \$ 99,251 |

(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> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net loss attributable to 3D Systems | \$ (1,317) | \$ (3,323) | \$ (3,401) | \$ (7,014) |
| Net income attributable to noncontrolling interest | 4 | | 4 | |
| Net loss | (1,313) | (3,323) | (3,397) | (7,014) |
| Other comprehensive loss: | | | | |
| Unrealized gain on pension obligation | 10 | | | 9 |
| Foreign currency translation adjustments | 1,189 | (749) | (551) | 1,565 |
| Comprehensive loss, net | \$ (114) | \$ (4,072) | \$ (3,948) | \$ (5,440) |

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 quarter and six months ended June 30, 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 these estimates and assumptions.

Certain prior period amounts have been reclassified to conform to their current year presentation. These reclassifications include \$285 of foreign exchange loss for the quarter ended June 30, 2008, and \$445 of foreign exchange gain for the six months ended June 30, 2008, that had previously been included in product cost of sales for the first two quarters of 2008, to interest and other expense (income), net in the Company's condensed consolidated statements of operations. This had the effect of increasing the Company's previously reported gross profit and interest and other expense (income), net for the second quarter of 2008 by \$285 and of decreasing operating loss for that quarter by the same amount. For the six months ended June 30, 2008, this reclassification had the effect of decreasing the Company's previously reported gross profit and interest and other expense (income) by \$445 and of increasing operating loss for the period by the same amount. It did not affect any of the other line items on the Company's condensed consolidated statements of operations for 2008.

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

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, no material recognizable subsequent events were identified.

(2) Inventories

Components of inventories, net at June 30, 2009 and December 31, 2008 were as follows:

| <i>(in thousands)</i> | 2009 | 2008 |
|------------------------------|-------------|-------------|
| Raw materials | \$ 1,622 | \$ 1,635 |
| Inventory held by assemblers | 7 | 34 |
| Work in process | 104 | 146 |
| Finished goods and parts | 20,436 | 22,359 |
| Total cost | 22,169 | 24,174 |
| Less: reserves | (3,061) | (3,156) |
| Inventories, net | \$ 19,108 | \$ 21,018 |

Table of Contents**(3) Property and Equipment**

Property and equipment at June 30, 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 |
| Machinery and equipment | 26,334 | 27,492 | 3-5 |
| Capitalized software ERP | 3,096 | 3,096 | 5 |
| Office furniture and equipment | 3,329 | 3,404 | 5 |
| Leasehold improvements | 7,310 | 7,567 | Life of lease |
| Rental equipment | 1,120 | 1,116 | 5 |
| Construction in progress | 1,031 | 298 | N/A |
| Total property and equipment | 50,786 | 51,539 | |
| Less: Accumulated depreciation and amortization | (28,796) | (27,467) | |
| Total property and equipment, net | \$ 21,990 | \$ 24,072 | |

Depreciation and software amortization expense for the quarter and six months ended June 30, 2009 were \$1,224 and \$2,509, respectively, compared to \$1,233 and \$2,183, for the quarter and six months ended June 30, 2008. For each of the quarters and six months ended June 30, 2009 and 2008, the Company recognized software amortization expense of \$134 and \$269, respectively, for its capitalized enterprise resource planning (ERP) system.

(4) Intangible Assets

Intangible assets other than goodwill at June 30, 2009 and December 31, 2008 were as follows:

| <i>(in thousands)</i> | June 30, 2009 | | |
|-------------------------|--------------------------------------|-------------------------------------|------------|
| | Gross Carrying Amount | Accumulated Amortization | Net |
| Licenses | \$ 5,875 | \$ (5,338) | \$ 537 |
| Patent costs | 16,124 | (13,425) | 2,699 |
| Other intangible assets | 8,968 | (8,968) | |
| Total | \$ 30,967 | \$ (27,731) | \$ 3,236 |

| <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 six months ended June 30, 2009 and 2008, the Company capitalized \$83 and \$230, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

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Amortization expense related to licenses, patent costs and other intangible assets for the quarters and six months ended June 30, 2009 and 2008 was as follows:

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Amortization expense: | | | | |
| Licenses | \$ 124 | \$ 124 | \$ 248 | \$ 248 |
| Patent costs | 64 | 77 | 121 | 154 |
| Other intangible assets | | 339 | 141 | 538 |
| Total | \$ 188 | \$ 540 | \$ 510 | \$ 940 |

Table of Contents**(5) Accrued and Other Liabilities**

Accrued liabilities at June 30, 2009 and December 31, 2008 were as follows:

| <i>(in thousands)</i> | 2009 | 2008 |
|---|-------------|-------------|
| Compensation and benefits | \$ 2,982 | \$ 2,239 |
| Vendor accruals | 927 | 1,880 |
| Accrued professional fees | 590 | 1,064 |
| Accrued taxes | 1,811 | 1,148 |
| Royalties payable | 154 | 297 |
| Non-contractual obligation to repurchase inventory held by assemblers | 7 | 34 |
| Accrued interest | 51 | 54 |
| Accrued other | 419 | 1,341 |
| | \$ 6,941 | \$ 8,057 |

Other liabilities at June 30, 2009 and December 31, 2008 were as follows:

| <i>(in thousands)</i> | 2009 | 2008 |
|------------------------------------|-------------|-------------|
| Defined benefit pension obligation | \$ 2,863 | \$ 2,801 |
| Other long-term liabilities | 501 | 476 |
| | \$ 3,364 | \$ 3,277 |

(6) Borrowings

The Company's debt, excluding capitalized lease obligations, at June 30, 2009 and December 31, 2008 was \$0 and \$3,085, respectively, and at December 31, 2008 consisted of industrial development bonds related to the Grand Junction facility, which was sold in December 2008. The remaining bonds outstanding at December 31, 2008, plus accrued interest, were redeemed in January 2009. The interest rate on the bonds at December 31, 2008 was 1.28%.

The following provides for the components of interest and other expense (income), net:

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest expense | \$ 162 | \$ 261 | \$ 321 | \$ 468 |
| Interest income | (10) | (194) | (11) | (420) |
| Foreign currency (gain) loss | 44 | 285 | 166 | (445) |
| Other | 64 | 133 | 11 | 226 |
| Total | \$ 260 | \$ 485 | \$ 487 | \$ (171) |

(7) Noncontrolling Interest

In May 2009, the Company formed MQast, LLC (MQast), a joint venture with an unrelated third party. MQast is an online provider of rapid, high-quality complex metal parts. The Company maintains a 51% ownership interest in MQast, and MQast's operating results are included in the condensed consolidated financial statements. In accordance with SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, the carrying value of the noncontrolling interest is reported in the condensed consolidated balance sheets as a separate component of equity, and both consolidated net loss and comprehensive loss have been adjusted to include the net income attributable to the noncontrolling interest.

(8) 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 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 June 30, 2009 and December 31, 2008, these contracts included contracts for the purchase of currencies other than the U.S. dollar. The dollar equivalents of the foreign currency contracts and the related fair values as of June 30, 2009 and December 31, 2008 were as follows:

| <i>(in thousands)</i> | Foreign Currency Purchase Contracts | |
|----------------------------|--|-------------|
| | 2009 | 2008 |
| Notional amount | \$ 1,549 | \$ 1,680 |
| Fair value | 1,539 | 1,699 |
| Net unrealized (loss) gain | \$ (10) | \$ 19 |

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The foreign currency contracts outstanding at June 30, 2009 expire at various times between July 8, 2009 and August 5, 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 quarter and six months ended June 30, 2009 were losses of \$(44) and \$(166), respectively, compared to gains (losses) of \$(285) and \$445, respectively, for the quarter and six months ended June 30, 2008.

(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. Stock-based compensation expense for the quarters and six months ended June 30, 2009 and 2008 was as follows:

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Restricted stock awards | \$ 342 | \$ 376 | \$ 731 | \$ 856 |
| Total stock-based compensation expense | \$ 342 | \$ 376 | \$ 731 | \$ 856 |

The number of shares of restricted common stock awarded and the weighted average fair value per share during the quarters and six months ended June 30, 2009 and 2008 were as follows:

| <i>(in thousands, except per share amounts)</i> | Quarter Ended June 30, | | | |
|---|-------------------------------|--|---------------------------|--|
| | 2009 | | 2008 | |
| | Shares Awarded | Weighted Average Fair Value | Shares Awarded | Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the 2004 Incentive Stock Plan | 4 | \$ 6.97 | 8 | \$ 15.07 |
| Granted under the 2004 Restricted Stock Plan for Non-Employee Directors | 21 | 6.97 | 22 | 8.80 |
| Total restricted stock awards | 25 | \$ 6.97 | 30 | \$ 10.47 |

| <i>(in thousands, except per share amounts)</i> | Six Months Ended June 30, | | | |
|---|----------------------------------|--|---------------------------|--|
| | 2009 | | 2008 | |
| | Shares Awarded | Weighted Average Fair Value | Shares Awarded | Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the 2004 Incentive Stock Plan | 182 | \$ 6.81 | 8 | \$ 15.07 |
| Granted under the 2004 Restricted Stock Plan for Non-Employee Directors | 21 | 6.97 | 24 | 9.24 |

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| | | | | | | |
|-------------------------------|-----|----|------|----|----|-------|
| Total restricted stock awards | 203 | \$ | 6.83 | 32 | \$ | 10.70 |
|-------------------------------|-----|----|------|----|----|-------|

Of the 182 shares of restricted stock awards granted in the six months ended June 30, 2009 pursuant to the Company's 2004 Incentive Stock Plan, 100 shares were awarded to executive officers of the Company. The 4 shares granted in the second quarter of 2009 remained subject to acceptance at June 30, 2009.

In the second quarter of 2009 the Company issued a total of 21 shares of common stock pursuant to the Company's 2004 Restricted Stock Plan for Non-Employee Directors. Stock compensation expense for directors totaled \$146 for the quarter and six months ended June 30, 2009, compared to \$194 and \$221, respectively, for the quarter and six months ended June 30, 2008.

Table of Contents**(10) Loss Per Share**

The Company presents basic and diluted earnings (loss) per share (EPS) amounts. Basic EPS is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS is calculated by dividing 3D Systems net income (loss) by the weighted average number of common and common equivalent shares outstanding during the applicable period. The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares for the quarters and six months ended June 30, 2009 and 2008:

| <i>(in thousands, except per share amounts)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| 3D Systems net loss numerator for basic net loss per share | \$ (1,317) | \$ (3,323) | \$ (3,401) | \$ (7,014) |
| Add: Effect of dilutive securities | | | | |
| Stock options and other equity compensation | | | | |
| Numerator for dilutive net loss per share | \$ (1,317) | \$ (3,323) | \$ (3,401) | \$ (7,014) |
| Denominator: | | | | |
| Weighted average shares denominator for basic net loss per share | 22,515 | 22,351 | 22,442 | 22,339 |
| Add: Effect of dilutive securities | | | | |
| Stock options and other equity compensation | | | | |
| Denominator for dilutive net loss per share | 22,515 | 22,351 | 22,442 | 22,339 |
| Loss per share | | | | |
| Basic and diluted | \$ (0.06) | \$ (0.15) | \$ (0.15) | \$ (0.31) |

No dilutive securities were included in the diluted weighted average shares outstanding for the quarter and six months ended June 30, 2009 and 2008 because the effect of their inclusion would have been anti-dilutive; that is, they would have reduced net loss per share.

(11) Income Taxes

The Company used effective tax rates of (19.1%) and (15.7%) for the quarter and six months ended June 30, 2009, respectively, compared to (10.3%) and (11.0%) for the quarter and six months ended June 30, 2008. Tax expense relates primarily to income from foreign operations.

Tax years 2005 to 2008 remain subject to examination by the U.S. Internal Revenue Service. Should the Company utilize any of its remaining U.S. loss carry-forwards, which date from 1997, years 1997 through 2004 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 (2004), Germany (2006), Japan (2004), Italy (2004), Switzerland (2004) and the United Kingdom (2006).

(12) Segment Information

The Company operates in one reportable business segment in which it develops, manufactures and markets worldwide 3-D printing, rapid prototyping and manufacturing systems designed to reduce the time it takes to produce three-dimensional objects. The Company conducts its business through subsidiaries in the United States, a subsidiary in Switzerland that operates a research and production facility, sales and service offices operated by subsidiaries in the European Community (France, Germany, the United Kingdom and Italy) and Japan, and a branch office in Hong Kong. The Company has historically disclosed summarized financial information for the geographic areas of

operations as if they were segments in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

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

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue from unaffiliated customers: | | | | |
| United States | \$ 11,455 | \$ 16,055 | \$ 22,210 | \$ 28,092 |
| Germany | 5,556 | 7,334 | 10,991 | 14,514 |
| Other Europe | 5,186 | 7,599 | 9,749 | 16,080 |
| Asia Pacific | 2,508 | 5,668 | 5,786 | 9,757 |
| Total | \$ 24,705 | \$ 36,656 | \$ 48,736 | \$ 68,443 |

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The Company's revenues from unaffiliated customers by type are as follows:

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|-------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Systems and other products | \$ 5,882 | \$ 11,487 | \$ 10,741 | \$ 19,329 |
| Materials | 11,702 | 16,226 | 22,332 | 31,149 |
| Services | 7,121 | 8,943 | 15,663 | 17,965 |
| Total revenue | \$ 24,705 | \$ 36,656 | \$ 48,736 | \$ 68,443 |

Intercompany sales are as follows:

| <i>(in thousands)</i> | Quarter Ended June 30, 2009 | | | | |
|-----------------------|------------------------------------|----------------|---------------------|---------------------|--------------|
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 2,547 | \$ 1,489 | \$ 109 | \$ 4,145 |
| Germany | | | 1,059 | | 1,059 |
| Other Europe | 1,708 | 308 | | | 2,016 |
| Asia Pacific | | | | | |
| Total | \$ 1,708 | \$ 2,855 | \$ 2,548 | \$ 109 | \$ 7,220 |

| <i>(in thousands)</i> | Quarter Ended June 30, 2008 | | | | |
|-----------------------|------------------------------------|----------------|---------------------|---------------------|--------------|
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 5,051 | \$ 3,244 | \$ 3,632 | \$ 11,927 |
| Germany | 428 | | 1,780 | | 2,208 |
| Other Europe | 1,641 | 5 | | | 1,646 |
| Asia Pacific | | | | | |
| Total | \$ 2,069 | \$ 5,056 | \$ 5,024 | \$ 3,632 | \$ 15,781 |

| <i>(in thousands)</i> | Six Months Ended June 30, 2009 | | | | |
|-----------------------|---------------------------------------|----------------|---------------------|---------------------|--------------|
| | United States | Germany | Other Europe | Asia Pacific | Total |
| United States | \$ | \$ 5,751 | \$ 3,383 | \$ 1,566 | \$ 10,700 |
| Germany | 3 | | 1,772 | | 1,775 |
| Other Europe | 3,213 | 446 | | | 3,659 |
| Asia Pacific | | | | | |
| Total | \$ 3,216 | \$ 6,197 | \$ 5,155 | \$ 1,566 | \$ 16,134 |

Six Months Ended June 30, 2008

| <i>(in thousands)</i> | Intercompany Sales to | | | | Total |
|-----------------------|-----------------------|----------|--------------|--------------|-----------|
| | United States | Germany | Other Europe | Asia Pacific | |
| United States | \$ | \$ 9,734 | \$ 6,142 | \$ 6,633 | \$ 22,509 |
| Germany | 462 | | 3,742 | | 4,204 |
| Other Europe | 2,841 | 53 | | | 2,894 |
| Asia Pacific | | | | | |
| Total | \$ 3,303 | \$ 9,787 | \$ 9,884 | \$ 6,633 | \$ 29,607 |

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

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|------------------------|------------|---------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Income (loss) from operations: | | | | |
| United States | \$ (2,286) | \$ (3,510) | \$ (5,230) | \$ (7,966) |
| Germany | 262 | 279 | 370 | 478 |
| Other Europe | 288 | 631 | 707 | 1,079 |
| Asia Pacific | 364 | (3) | 1,307 | 324 |
| Subtotal | (1,372) | (2,603) | (2,846) | (6,085) |
| Inter-segment elimination | 529 | 75 | 396 | (404) |
| Total | \$ (843) | \$ (2,528) | \$ (2,450) | \$ (6,489) |

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| <i>(in thousands)</i> | June 30, 2009 | December 31, 2008 |
|-----------------------|--------------------------|------------------------------|
| Assets: | | |
| United States | \$ 51,431 | \$ 61,974 |
| Germany | 24,773 | 25,762 |
| Other Europe | 42,084 | 43,396 |
| Asia Pacific | 19,943 | 21,870 |
| Total | \$ 138,231 | \$ 153,002 |

(13) Contingencies

On March 14, 2008, DSM Desotech Inc. filed a complaint, as amended, in an action titled *DSM Desotech Inc. v. 3D Systems Corporation et al.* 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 large-frame stereolithography machines. The complaint further asserted that the Company is infringing on two of DSM Desotech's patents relating to stereolithography machines. The Company understands that DSM Desotech estimates the damages associated with its claims to be in excess of \$40,000.

Following a decision of the Court on the Company's motion to dismiss the non-patent causes of the action, DSM Desotech filed a second amended complaint on March 2, 2009 in which it reasserted causes of action previously dismissed by the Court. The Company filed an answer to the second amended complaint on March 19, 2009 in which, among other things, it denied the material allegations of the second amended complaint. Discovery is proceeding on the claims pending in this case.

The Company intends to vigorously contest all of the claims asserted by DSM Desotech.

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

(14) Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 introduced a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities.

SFAS No. 157 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. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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

| <i>(in thousands)</i> | Fair Value Measurements as of June 30, 2009 | | | |
|-----------------------|--|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |

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| | | | | |
|----------------------------------|----|--------|----|-----------|
| Description | | | | |
| Cash equivalents(1) | \$ | 20,785 | \$ | \$ 20,785 |
| Currency derivative contracts(1) | | 1,539 | | 1,539 |
| Total | \$ | 22,324 | \$ | \$ 22,324 |

(1) Unrealized gains or losses on short term investments and derivatives are recorded in Interest and other expense (income), net in the condensed consolidated statement of operations at each measurement date.

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The fair market values of Level 1 currency derivative contracts at June 30, 2009 and December 31, 2008 were as follows:

| <i>(in thousands)</i> | Foreign Currency Purchase Contracts | |
|----------------------------|--|----------|
| | 2009 | 2008 |
| Notional amount | \$ 1,549 | \$ 1,680 |
| Fair value | 1,539 | 1,699 |
| Net unrealized (loss) gain | \$ (10) | \$ 19 |

In January 2009, the Company adopted FASB Staff Position No. 157-2 (FSP FAS 157-2) for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP FAS 157-2 did not have a material impact on the Company's consolidated financial statements.

(15) 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 for the quarter and six months ended June 30, 2009 and 2008:

| <i>(in thousands)</i> | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-----------------------|------------------------|-------|---------------------------|-------|
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ 23 | \$ 23 | \$ 47 | \$ 46 |
| Interest cost | 22 | 17 | 44 | 35 |
| Total | \$ 45 | \$ 40 | \$ 91 | \$ 81 |

(16) Recent**Accounting****Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which allowed companies to elect a one year deferral of adoption of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. In March 2009, the FASB released Proposed Staff Position SFAS 157-e, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed (SFAS 157-e), which provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS No. 157. SFAS 157-e would be effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009; however, it has not yet been issued by the FASB. In May 2009 the FASB released Proposed Staff Position SFAS 157-f, Measuring Liabilities under FASB Statement No. 157 (SFAS 157-f), which provides guidance on the fair value measurement of liabilities under SFAS No. 157. SFAS 157-f will be effective for the first reporting period, including interim periods, beginning after its issuance, with earlier application permitted. The Company currently does not have any financial assets or liabilities that are valued in inactive or non-orderly markets, and as such are not currently impacted by the issuance of FSP FAS 157-3 or FSP FAS 157-4. The Company has adopted SFAS No. 157 as it relates to financial assets and liabilities as of

January 1, 2008 and as it relates to nonfinancial assets and liabilities as of January 1, 2009, and the impact of the adoption was not significant. The Company is evaluating the impact of proposals SFAS 157-e and SFAS 157-f on its consolidated financial statements. See Note 14 to the condensed consolidated financial statements.

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In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair values of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP also amends ABP Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 became effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the FSP for the period ended June 30, 2009, and the impact of the adoption was not significant; see Note 14 to the condensed consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 became effective for the Company for the period ended June 30, 2009 and is to be applied prospectively. The impact of adoption was not significant. See Note 1 to the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standard Codification* (Codification) and the *Hierarchy of Generally Accepted Accounting Principles*, effective for interim and annual reporting periods ending after September 15, 2009. This statement replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* and establishes the Codification as the source of authoritative accounting principles used in the preparation of financial statements in conformity with generally accepted accounting principles. The Codification does not replace or affect guidance issued by the SEC or its staff. After the effective date of this statement, all non-grandfathered non-SEC accounting literature not included in the Codification will be superseded and deemed non-authoritative.

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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 condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on 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 Quarterly Report on Form 10-Q.

Business Overview

We design, develop, manufacture, market and service 3-D printing, rapid manufacturing, and prototyping systems and related products and materials that enable complex three-dimensional objects to be produced directly from computer data without tooling, greatly reducing the time and cost required to produce prototypes or customized production parts.

Our consolidated revenue is derived primarily from the sale of our systems, the sale of the related materials used by the systems to produce solid objects and the provision of services to our customers.

Recent Developments

New product developments

During 2009, we have continued our new product development activities, resulting in the following, which were not material to our operating results:

In April 2009, we began offering the production of large one-piece SLA parts through our online Pro-Parts Marketplace. Through the Pro-Parts Marketplace, customers can obtain high-definition precision parts up to 60 inches (1500 mm) long that are produced on our new iPro 9000 XL SLA Precision Centers. Producing very large high-definition precision parts in a single piece eliminates the labor intensity associated with the fixturing and assembly of sectioned pieces into a larger part as well as the dimensional inaccuracy that can result from the complex manufacturing of subassemblies.

In May 2009, we formed MQast, LLC through a joint venture with an unrelated third party which is a leading Rapid Prototyping and Manufacturing Service Provider. MQast, LLC is an online provider of rapid, high-quality, complex geometry metal parts, which utilizes MQast technology. These parts are ideally suited for aerospace, medical and automotive applications for functional testing, design verification and end-use for short-run production.

Also in May 2009, we launched our sPro 60 SLS Centers. Expanding our line of sPro Centers, the sPro 60 SLS family of new cost-saving production systems enables users to rapidly manufacture stable, durable plastic parts for demanding functional testing and end-use applications. sPro 60 SLS Centers feature enhanced productivity within an optimized build volume, new CleanSweep IR sensor technology, the ability to process multiple materials and the flexibility to change materials quickly. Optional features include our ProScan digital imaging system and the AccuTemp thermal control system, which are designed for the most rigorous manufacturing applications. As part of our new sPro 60 SLS product family, we also launched a new, affordable basic sPro 60 SLS production system that offers unmatched value with the flexibility to upgrade to the more advanced sPro Production Centers.

We launched our V-Flash Desktop Printer in May 2009, the first commercially available 3-D modeler priced under \$10,000. The V-Flash Printer delivers high-quality hard-plastic parts for enhanced design at an affordable price and low total cost of ownership. V-Flash Printers combine the versatility typically found in more expensive 3-D printers with the convenience of an easy-to-use desktop printer. Its compact size, quiet operation, and network-ready connection makes V-Flash Printers ideal for virtually any design job at a price virtually any business can afford.

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Results of Operations

Summary of 2009 financial results

We generated \$1.8 million of net cash in the first six months of 2009 and finished the period with \$24.0 million of unrestricted cash compared to \$22.2 million of unrestricted cash at December 31, 2008.

As discussed in greater detail below, revenue for the second quarter of 2009 declined by 33% to \$24.7 million from \$36.7 million for the second quarter of 2008, due to weak global demand, particularly in the automotive and consumer electronics sectors. Revenue was down across all classes of products and services, primarily reflecting the cumulative effect of the decline in large-frame systems sales that began in the first quarter of 2008. Revenue for the six months ended June 30, 2009 declined 29% to \$48.7 million from \$68.4 million in 2008, for primarily the same reasons.

Materials sales for the second quarter of 2009 declined by \$4.5 million from the second quarter of 2008 as revenue from materials was adversely impacted by the significant reduction in large-frame systems sales, which are typically accompanied by significant initial materials purchases to charge up new systems and commence production, and decreased demand due to the downturn in the global economy.

We are encouraged, however, by the improved trend in systems and materials sales during the second quarter of 2009, which increased by \$1.0 million (21%) and \$1.1 million (10%), respectively, from first quarter 2009 levels.

Revenue from services fell by \$1.8 million to \$7.1 million in the second quarter of 2009 from \$8.9 million in the same quarter of 2008 primarily as a result of a significant drop in maintenance and warranty revenue, which reflects the trailing 12-month cumulative effect of lower large-frame sales that began during the first quarter of 2008. Services revenue declined by \$1.4 million in the second quarter of 2009 from \$8.5 million in the first quarter of 2009, resulting from the continued effect of lower large-frame sales as well as a reduced volume of systems upgrades as compared with the first quarter of 2009.

Foreign currency translation had a \$1.6 million unfavorable impact on revenue in the second quarter of 2009 compared to a \$2.2 million favorable impact on revenue in the second quarter of 2008 as the U.S. dollar strengthened in 2009 against most major currencies, with the exception of the Japanese Yen.

Through our cost saving initiatives, in the aggregate, we were able to improve gross margin, reduce operating expenses and narrow our operating loss by \$1.7 million.

Our gross profit improved modestly to \$10.8 million in the second quarter of 2009 from \$10.5 million in the first quarter of 2009, although it was down by \$5.0 million compared to the first six months of 2008 primarily due to our lower level of revenue. Our cost of sales also fell due to a combination of lower sales and the initiatives undertaken in 2008 and the first and second quarters of 2009 to lower our cost of sales. Our gross profit margin increased to 43.8% in the second quarter of 2009 from 37.1% in the second quarter of 2008 as increased supply chain efficiencies, the elimination of certain third-party logistics costs in the U.S. and cost reductions in our field service organization more than offset lower overhead absorption over lower sales. These changes reflect the reclassifications of foreign exchange effects from cost of sales to interest and other expense (income), which are more fully described below under our discussions of *Gross profit and gross profit margins*.

Our operating expenses declined by \$4.4 million in the second quarter of 2009 to \$11.7 million from \$16.1 million in the 2008 quarter. The decrease reflected lower selling, general and administrative expenses and lower research and development expenses consistent with our cost reduction initiatives. We expect our SG&A expenses for the remainder of 2009 to be in the range of \$17 to \$19 million, and our research and development expenses to be in the range of \$5 million to \$6 million.

Table of Contents**Results of Operations Second Quarter Comparisons****Second 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 second quarter of 2009 compared to the second quarter of 2008:

Table 1

| (Dollars in thousands) | Systems and Other | | Materials | | Services | | Totals | |
|--------------------------------------|-------------------|--------|-----------|--------|----------|--------|-----------|--------|
| | Products | | | | | | | |
| Revenue 2 nd quarter 2008 | \$ 11,487 | 31.3% | \$ 16,226 | 44.3% | \$ 8,943 | 24.4% | \$ 36,656 | 100% |
| Change in revenue: | | | | | | | | |
| Volume | | | | | | | | |
| Core products and services | (3,304) | (28.8) | (590) | (3.6) | (604) | (6.8) | (4,498) | (12.3) |
| New products and services | (1,939) | (16.9) | (2,644) | (16.3) | (695) | (7.8) | (5,278) | (14.4) |
| Price/Mix | (119) | (1.0) | (453) | (2.8) | | | (572) | (1.5) |
| Foreign currency translation | (243) | (2.1) | (837) | (5.2) | (523) | (5.8) | (1,603) | (4.4) |
| Net change | (5,605) | (48.8) | (4,524) | (27.9) | (1,822) | (20.4) | (11,951) | (32.6) |
| Revenue 2 nd quarter 2009 | \$ 5,882 | 23.8% | \$ 11,702 | 47.4% | \$ 7,121 | 28.8% | \$ 24,705 | 100.0% |

On a consolidated basis, revenue for the second quarter of 2009 declined by 32.6% to \$24.7 million from \$36.7 million for the second quarter of 2008. The principal factors leading to this \$12.0 million decrease in consolidated revenue were the \$9.8 million decrease in product unit volume, the \$1.6 million unfavorable effect of foreign currency translation, and the \$0.6 million combined unfavorable effect of price and mix.

Revenue from systems and other products decreased by \$5.6 million or 48.8% to \$5.9 million for the quarter ended June 30, 2009 from \$11.5 million for the second quarter of 2008. Systems revenue fell to 23.8% of consolidated revenue in the 2009 quarter from 31.3% in the 2008 period. The decrease from the 2008 quarter arose from a \$5.2 million net decrease in unit volume of core and new products, a \$0.2 million unfavorable impact from foreign currency translation, and a \$0.1 million combined unfavorable effect of price and mix. The decrease in volume from systems sales was due to lower sales of large-frame systems that were only partially offset by an increase in unit volume of 3-D printers.

Large-frame systems represented 15% of total systems revenue for the second quarter of 2009 compared to 25% for the second quarter of 2008, while sales of small-frame systems and 3-D printers accounted for the remaining 85%, increasing from 75% for the second quarter of 2008.

Systems orders and sales tend to fluctuate on a quarterly basis as a result of a number of factors, including the types of systems ordered by customers, customer acceptance of newly introduced products, the timing of product orders and shipments, global economic conditions and fluctuations in foreign currency exchange rates. Our customers generally purchase our systems as capital equipment items, and their purchasing decisions may have a long lead time. Due to the relatively high list price of certain systems and the overall low unit volume of systems sales in any particular period, the acceleration or delay of orders and shipments of a small number of systems from one period to another can significantly affect revenue reported for our systems sales for the period involved. Revenue reported for systems sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles. However, as noted above, production and delivery of our systems is generally not characterized by long lead times, and backlog is therefore generally not a material factor in our business.

At June 30, 2009 our backlog was approximately \$1.6 million, a 20.0% increase from the \$1.4 million of backlog at December 31, 2008, and a 47.4% increase from the \$1.1 million of backlog at June 30, 2008. We believe that our level of backlog at June 30, 2009 is generally consistent with the normal operating trends in our business.

As used in this Management's Discussion and Analysis, the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, relates to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our systems as the trend toward smaller, more economical systems has continued and the influence of new systems and materials on our operating results has grown. Our reporting systems are not currently configured to produce more quantitative information regarding the effect of price and mix changes on revenue.

Revenue from materials was also adversely impacted by lower large-frame systems sales, which are typically accompanied by significant initial materials purchases to charge up new systems and commence production, and decreased demand in the global marketplace due to the continued overall economic downturn. Revenue from materials declined by \$4.5 million or 27.9% to \$11.7 million for the second quarter of 2009 from \$16.2 million for the 2008 quarter and represented 47.4% of consolidated revenue in the 2009 period compared to 44.3% in the 2008 period. The decrease in materials revenue was the result of the \$3.2 million decrease in core and new product volume, the \$0.8 million unfavorable effect of foreign currency translation, and the \$0.5 million unfavorable combined effect of price and mix. Sales of integrated materials represented 30% of total materials revenue in the second quarter of 2009 compared to 35% in the first quarter of 2009 and 28% in the fourth quarter of 2008. Sales of integrated materials in the second quarter of 2009 decreased 18% compared to the second quarter of 2008.

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Revenue from services decreased by \$1.8 million or 20.4% to \$7.1 million for the second quarter of 2009 from \$8.9 million for the 2008 period and increased to 28.8% of consolidated revenue from 24.4% for the 2008 period. This overall decrease in services revenue reflects a reduction in maintenance revenue and the trailing 12-month cumulative impact of the decline in large-frame systems sales on warranty revenue.

Change in second quarter revenue by geographic region

Each geographic region contributed to our lower level of revenue in the second quarter of 2009. Table 2 sets forth the change in revenue by geographic area for the second quarter of 2009 compared to the second quarter of 2008:

Table 2

| (Dollars in thousands) | U.S. | | Europe | | Asia-Pacific | | Totals | |
|--------------------------------------|-----------|--------|-----------|--------|--------------|--------|-----------|--------|
| Revenue 2 nd quarter 2008 | \$ 16,055 | 43.8% | \$ 14,933 | 40.7% | \$ 5,668 | 15.5% | \$ 36,656 | 100% |
| Change in revenue: | | | | | | | | |
| Volume | (2,867) | (17.9) | (3,681) | (24.7) | (3,228) | (57.0) | (9,776) | (26.7) |
| Price/Mix | (1,733) | (10.8) | 1,205 | 8.1 | (44) | (0.8) | (572) | (1.5) |
| Foreign currency translation | | | (1,715) | (11.5) | 112 | 2.0 | (1,603) | (4.4) |
| Net change | (4,600) | (28.7) | (4,191) | (28.1) | (3,160) | (55.8) | (11,951) | (32.6) |
| Revenue 2 nd quarter 2009 | \$ 11,455 | 46.3% | \$ 10,742 | 43.5% | \$ 2,508 | 10.2% | \$ 24,705 | 100% |

Revenue from U.S. operations declined by \$4.6 million or 28.7% to \$11.5 million in 2009 from \$16.1 million in the second quarter of 2008. The decrease was due to lower volume and the unfavorable combined effect of price and mix. Revenue from non-U.S. operations for the second quarter of 2009 declined by \$7.4 million or 35.7% to \$13.2 million from \$20.6 million for the second quarter of 2008. Revenue from non-U.S. operations as a percent of total revenue was 53.7% and 56.2%, respectively, for the second quarters of 2009 and 2008. The decline in non-U.S. revenue, excluding the effect of foreign currency translation, was 27.9% in the second quarter of 2009.

Revenue from European operations declined by \$4.2 million or 28.1% to \$10.7 million from \$14.9 million in the prior year period. This decrease was due to a \$3.7 million decline in volume and the \$1.7 million unfavorable impact of foreign currency translation, partially offset by a \$1.2 million favorable combined effect of price and mix.

Revenue from Asia-Pacific operations declined by \$3.2 million or 55.8% to \$2.5 million from \$5.7 million in the prior year period due primarily to the unfavorable \$3.3 million combined decrease in volume, price and mix as sales were adversely affected by the previously disclosed reorganization filing of our largest Japanese customer. This decline in sales volume was partially offset by \$0.1 million in favorable foreign currency translation.

Gross profit and gross profit margins – second quarter

Table 3 sets forth gross profit and gross profit margin for our products and services for the second quarters of 2009 and 2008:

Table 3

| (Dollars in thousands) | Quarter Ended June 30, | | | |
|------------------------|------------------------|-----------|--------------|-----------|
| | 2009 | | 2008 | |
| | Gross Profit | % Revenue | Gross Profit | % Revenue |
| Systems | \$ 1,090 | 18.5% | \$ 2,284 | 19.9% |
| Materials | 7,051 | 60.3 | 9,919 | 61.1 |
| Services | 2,689 | 37.8 | 1,402 | 15.7 |
| Total | \$ 10,830 | 43.8% | \$ 13,605 | 37.1% |

We reclassified \$0.3 million of foreign exchange loss, that had previously been included in product cost of sales for the second quarter of 2008, to interest and other expense (income), net in our condensed consolidated statement of operations. This had the effect of increasing our previously reported gross profit and interest and other expense (income), net for the second quarter of 2008 by \$0.3 million and of decreasing operating loss for that quarter by the same amount. It did not affect any of the other line items on our condensed consolidated statement of operations for 2008, and this management discussion and analysis reflects the results of this reclassification.

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On a consolidated basis, gross profit for the second quarter of 2009 decreased by \$2.8 million to \$10.8 million from \$13.6 million in the second quarter of 2008, primarily as a result of lower materials sales and lower large-frame systems revenue.

Consolidated gross profit margin in the second quarter of 2009 improved by 6.7 percentage points to 43.8% of revenue from 37.1% of revenue for the 2008 quarter. Countering the adverse effect of our lower revenue, the increase in gross profit margin reflected the effect of various cost savings initiatives that we pursued in 2008 and during the first two quarters of 2009, which included certain supply chain efficiencies, the movement of certain third-party logistics activities in-house, the sale of system upgrades and a reduction in field service costs.

Systems gross profit for the second quarter of 2009 decreased to \$1.1 million from \$2.3 million for the 2008 quarter. Gross profit margin for systems decreased by 1.4 percentage points to 18.5% of revenue from 19.9% of revenue in the 2008 quarter. The 2009 gross profit margin was adversely affected by approximately 2.1 percentage points due to the previously disclosed negative impact on margin of sales of our V-Flash® Desktop Printer and by the decline in volume discussed above resulting in the absorption of fixed costs over fewer units. Partially offsetting this decline were supply chain efficiencies and lower system refurbishment costs.

Materials gross profit for the second quarter of 2009 decreased by \$2.8 million or 28.9% to \$7.1 million from \$9.9 million for the 2008 quarter, and gross profit margin for materials decreased by 0.8 percentage points to 60.3% of revenue from 61.1% of revenue in the 2008 quarter primarily due to the decline in sales volume of materials, which was adversely affected by the lower level of large-frame systems sales and decreased demand due to weakness in the overall global economy.

Gross profit for services for the second quarter of 2009 increased by \$1.3 million or 91.8% to \$2.7 million from \$1.4 million for the 2008 quarter, and gross profit margin for services increased by 22.1 percentage points to 37.8% of revenue from 15.7% of revenue in the 2008 quarter. The improved gross profit was due to the combined effect of a decline in fixed costs associated with our decision to cease servicing certain legacy products, resolution of the premature failure of certain system components and reductions in field service costs initiated in 2008.

Operating expenses

As shown in Table 4, total operating expenses decreased by \$4.4 million or 27.6% to \$11.7 million in the second quarter of 2009 from \$16.1 million in the second quarter of 2008 as our cost savings initiatives have gained traction, as evidenced by continued declines in operating expenses in each of the last seven quarters. This decrease consisted of \$3.8 million in lower selling, general and administrative expenses and \$0.6 million of lower research and development expenses, both of which are discussed below.

Table 4

| | Quarter Ended June 30, | | | |
|--|------------------------|--------------|-----------|--------------|
| | 2009 | | 2008 | |
| (Dollars in thousands) | Amount | % Revenue | Amount | % Revenue |
| Selling, general and administrative expenses | \$ 8,818 | 35.7% | \$ 12,555 | 34.2% |
| Research and development expenses | 2,855 | 11.6 | 3,578 | 9.8 |
| Total operating expenses | \$ 11,673 | 47.3% | \$ 16,133 | 44.0% |

Selling, general and administrative expenses

Selling, general and administrative expenses declined by \$3.8 million to \$8.8 million in the second quarter of 2009 compared to \$12.6 million in the second quarter of 2008 primarily related to:

- a \$1.8 million decline in compensation costs primarily due to lower staffing levels;
- \$0.4 million of lower accounting fees;
- \$0.3 million of lower contract labor and consultant costs;
- \$0.3 million of lower travel expenses;

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\$0.3 million of lower costs associated with trade shows;
 \$0.2 million of lower occupancy costs; and
 \$0.2 million of lower advertising expenses.

Research and development expenses

Research and development expenses decreased by \$0.7 million or 20.2% to \$2.9 million in the second quarter of 2009 from \$3.6 million in the second quarter of 2008, principally due to a \$0.8 million decrease in outside consulting services in the 2009 quarter and the reduction in costs for 2009 following the commercialization of certain of our new products previously announced in 2008.

Loss from operations

Our loss from operations for the second quarter of 2009 decreased by \$1.7 million to \$0.8 million from \$2.5 million in the second quarter of 2008, including the effect of the second quarter 2008 reclassification discussed above. See *Gross profit and gross profit margins* above. Our reduced loss from operations in the quarter ended June 30, 2009 reflected our higher gross profit margin and our lower operating expenses, which partially offset the effect of our lower consolidated revenue.

The following table sets forth operating loss by geographic area for the second quarter of 2009 and 2008:

Table 5

| <i>(in thousands)</i> | Quarter Ended June 30, | |
|-------------------------------|-------------------------------|-------------|
| | 2009 | 2008 |
| Income (loss) from operations | | |
| United States | \$ (2,286) | \$ (3,510) |
| Germany | 262 | 279 |
| Other Europe | 288 | 631 |
| Asia Pacific | 364 | (3) |
| Subtotal | (1,372) | (2,603) |
| Inter-segment elimination | 529 | 75 |
| Total | \$ (843) | \$ (2,528) |

With respect to the U.S., the changes in operating loss from 2008 to 2009 reflected the same factors relating to our consolidated operating loss that are discussed above. As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income (loss) in our operations outside the U.S. from 2008 to 2009 are affected by changes in transfer pricing.

Interest and other expense (income), net

Interest and other expense (income), net decreased to \$0.3 million of net expense in the second quarter of 2009 from \$0.5 million in the 2008 quarter, after giving effect to the reclassification of foreign currency effects discussed above. See *Gross profit and gross profit margins* above.

Table 6 shows the components of the decrease:

Table 6

| <i>(in thousands)</i> | Quarter Ended June 30, | | Change |
|-----------------------|-------------------------------|-------------|---------------|
| | 2009 | 2008 | |
| Interest expense | \$ 162 | \$ 261 | \$ (99) |
| Interest income | (10) | (194) | 184 |
| Foreign currency loss | 44 | 285 | (241) |
| Other | 64 | 133 | (69) |
| Total | \$ 260 | \$ 485 | \$ (225) |

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The reduction in interest expense from 2008 resulted from the repayment of the outstanding industrial development bonds in January 2009, while the lower interest income was the result of our having moved our short-term investments into U.S. Treasury funds.

Provision for income taxes

We recorded a provision for income taxes of \$0.2 million in the quarter ended June 30, 2009, compared to \$0.3 million for the quarter ended June 30, 2008. Our provision for income taxes primarily reflects income taxes in foreign jurisdictions.

Net loss

Our net loss for the second quarter of 2009 improved to \$1.3 million, compared to \$3.3 million for the second quarter of 2008. The principal reasons for our lower net loss for the second quarter 2009, discussed in more detail above, were: the \$1.7 million reduction in our operating loss, the \$0.2 million reduction in interest and other expense (income), net, and the \$0.1 million decrease in our provision for income taxes.

For the quarter ended June 30, 2009, our weighted average common shares outstanding were 22.5 million, and on a per share basis the basic and diluted loss per share for the same period was \$0.06. For the quarter ended June 30, 2008, our weighted average common shares outstanding were 22.4 million, and on a per share basis the basic and diluted loss per share for the same period was \$0.15

Results of Operations Six Month Comparisons**Six month comparison of revenue by class of product and service**

Table 7 sets forth our change in revenue by class of product and service for the first six months of 2009 compared to the same period of 2008:

Table 7

| (Dollars in thousands) | Systems and Other | | Materials | | Services | | Totals | |
|------------------------------|----------------------|--------|-----------|--------|-----------|--------|-----------|--------|
| | Products | | | | | | | |
| Revenue six months 2008 | \$ 19,329 | 28.3% | \$ 31,149 | 45.5% | \$ 17,965 | 26.2% | \$ 68,443 | 100% |
| Change in revenue: | | | | | | | | |
| Volume | | | | | | | | |
| Core products and services | (5,266) | (27.2) | (2,532) | (8.1) | 19 | 0.1 | (7,779) | (11.4) |
| New products and services | (2,446) | (12.7) | (4,643) | (14.9) | (1,166) | (6.5) | (8,255) | (12.1) |
| Price/Mix | (271) | (1.4) | 33 | 0.1 | | | (238) | (0.3) |
| Foreign currency translation | (605) | (3.1) | (1,675) | (5.4) | (1,155) | (6.4) | (3,435) | (5.0) |
| Net change | (8,588) | (44.4) | (8,817) | (28.3) | (2,302) | (12.8) | (19,707) | (28.8) |
| Revenue six months 2009 | \$ 10,741 | 22.0% | \$ 22,332 | 45.8% | \$ 15,663 | 32.2% | \$ 48,736 | 100.0% |

On a consolidated basis, revenue for the first six months of 2009 declined by 28.8% to \$48.7 million from \$68.4 million for the first six months of 2008. The factors leading to this \$19.7 million decrease in consolidated revenue were the \$16.0 million decrease in product unit volume, the \$3.4 million unfavorable effect of foreign currency translation and the \$0.2 million unfavorable effect of price and mix.

Revenue from systems and other products decreased by \$8.6 million or 44.4% to \$10.7 million for the six months ended June 30, 2009 from \$19.3 million for the six months ended June 30, 2008. Systems revenue fell to 22.0% of consolidated revenue in the 2009 period from 28.3% in the 2008 period. The decrease from 2008 arose primarily from a \$7.7 million net decrease in unit volume of core and new products, a \$0.6 million unfavorable impact from foreign currency translation and a \$0.3 million combined unfavorable effect of price and mix. The decrease in volume from systems sales was due to lower sales of large-frame systems that were only partially offset by an increase in unit volume of 3-D printers.

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Large-frame systems represented 12% of total systems revenue for the first six months of 2009 compared to 25% for the first six months of 2008, while sales of small-frame systems and 3-D printers accounted for the remaining 88%, increasing from 75% for the 2008 period. Revenue from 3-D printers was helped by increased sales of our ProJet line of 3-D printers introduced in 2008, which were up 98%, sales of our V-Flash® Desktop Printer, and growing demand for our Dental Professional printers.

Revenue from materials was also adversely impacted by lower large-frame systems sales, which are typically accompanied by significant materials purchases to initially fill new systems and commence production, and decreased demand in the global marketplace due to the continued overall economic weakness. Revenue from materials declined by \$8.8 million or 28.3% to \$22.3 million for the first six months of 2009 from \$31.1 million for the 2008 period and represented 45.8% of consolidated revenue in the 2009 period compared to 45.5% in the 2008 period. The decrease was primarily the result of the \$7.2 million decrease in core and new product volume and the \$1.7 million unfavorable effect of foreign currency translation. Sales of integrated materials represented 32% of total materials revenue in the first six months of 2009 compared to 24% in the first six months of 2008. Sales of integrated materials in the first six months of 2009 decreased by 3% compared to an overall decline of 28% for all materials sales, evidencing that our integrated materials strategy continues to build momentum

Revenue from services decreased by \$2.3 million or 12.8% to \$15.7 million for the first six months of 2009 from \$18.0 million for the 2008 period and increased to 32.2% of consolidated revenue from 26.2% for the 2008 period. The decrease was primarily the result of unfavorable foreign currency translation of \$1.2 million and a decrease in new and core products and services volume of \$1.1 million due to a reduction in maintenance revenues and the adverse impact of the trailing 12-month cumulative decline in large-frame system sales on warranty revenue.

Change in six month revenue by geographic region

Each geographic region contributed to our lower level of revenue in the first six months of 2009. Table 8 sets forth the change in revenue by geographic area for the first six months of 2009 compared to the first six months of 2008:

Table 8

| (Dollars in thousands) | U.S. | | Europe | | Asia-Pacific | | Totals | |
|-------------------------------|-------------|--------|---------------|--------|---------------------|--------|---------------|--------|
| Revenue six months, 2008 | \$ 28,092 | 41.0% | \$ 30,594 | 44.7% | \$ 9,757 | 14.3% | \$ 68,443 | 100% |
| Change in revenue: | | | | | | | | |
| Volume | (3,808) | (13.5) | (7,583) | (24.8) | (4,643) | (47.6) | (16,034) | (23.5) |
| Price/Mix | (2,074) | (7.4) | 1,498 | 4.9 | 338 | 3.5 | (238) | (0.3) |
| Foreign currency translation | | | (3,769) | (12.3) | 334 | 3.4 | (3,435) | (5.0) |
| Net change | (5,882) | (20.9) | (9,854) | (32.2) | (3,971) | (40.7) | (19,707) | (28.8) |
| Revenue six months, 2009 | \$ 22,210 | 45.6% | \$ 20,740 | 42.5% | \$ 5,786 | 11.9% | \$ 48,736 | 100% |

Revenue from U.S. operations declined by \$5.9 million or 20.9% to \$22.2 million in 2009 from \$28.1 million in the first six months of 2008. The decrease was due to lower volume and the unfavorable combined effect of price and mix.

Revenue from non-U.S. operations for the first six months of 2009 declined by \$13.9 million or 34.3% to \$26.5 million from \$40.4 million for the first six months of 2008. Revenue from non-U.S. operations as a percentage of total revenue was 54.4% and 59.0%, respectively, for the first six months of 2009 and 2008. The decline in non-U.S. revenue, excluding the effect of foreign currency translation, was 25.7% in the first six months of 2009.

Revenue from European operations declined by \$9.9 million or 32.2% to \$20.7 million from \$30.6 million in the prior year period. This decrease was due to a \$7.6 million decline in volume and the \$3.8 million unfavorable impact of foreign currency translation, partially offset by a \$1.5 million favorable combined effect of price and mix.

Revenue from Asia-Pacific operations declined by \$4.0 million or 40.7% to \$5.8 million from \$9.8 million in the prior year period due primarily to the unfavorable \$4.6 million decrease in volume as sales were adversely affected by the

previously disclosed reorganization filing of our largest Japanese customer. This decline in sales volume was partially offset by a \$0.3 million favorable combined effect of price and mix and \$0.3 million in favorable foreign currency translation.

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

Table 9 sets forth gross profit and gross profit margin for our products and services for the first six months of 2009 and 2008:

Table 9

| (Dollars in thousands) | Six Months Ended June 30, | | | |
|------------------------|---------------------------|-----------|--------------|-----------|
| | 2009 | | 2008 | |
| | Gross Profit | % Revenue | Gross Profit | % Revenue |
| Systems | \$ 1,943 | 18.1% | \$ 2,294 | 11.9% |
| Materials | 13,750 | 61.6 | 20,221 | 64.9 |
| Services | 5,616 | 35.9 | 3,790 | 21.1 |
| Total | \$ 21,309 | 43.7% | \$ 26,305 | 38.4% |

We reclassified \$0.4 million of foreign exchange gain, that had previously been included in cost of sales for the first six months of 2008, to interest and other expense (income), net in our condensed consolidated statement of operations. This had the effect of decreasing our previously reported gross profit and interest and other expense (income), net for the first six months of 2008 by \$0.4 million and of increasing operating loss for that period by the same amount. It did not affect any of the other line items on our condensed consolidated statement of operations for 2008, and this management discussion and analysis reflects the results of this reclassification.

On a consolidated basis, gross profit for the first six months of 2009 decreased by \$5.0 million to \$21.3 million from \$26.3 million in the first six months of 2008, primarily as a result of lower materials sales and lower large-frame systems revenue.

Consolidated gross profit margin in the first six months of 2009 increased by 5.3 percentage points to 43.7% of revenue from 38.4% of revenue for the 2008 period. Countering the adverse effect of our lower revenue, the increase in gross profit margin reflected the effect of various cost savings initiatives that we pursued in 2008 and the first two quarters of 2009, which included certain supply chain efficiencies, the movement of certain third-party logistics activities in-house, the sale of system upgrades and a reduction in field service costs.

Systems gross profit for the first six months of 2009 decreased to \$1.9 million from \$2.3 million for the 2008 period. Gross profit margin for systems increased by 6.2 percentage points to 18.1% of revenue from 11.9% of revenue in the 2008 period. The improved gross profit margin resulted from increased supply chain efficiencies and lower system refurbishment costs. The improvement was partially offset by the decline in volume discussed above resulting in the absorption of fixed costs over fewer units and the previously disclosed negative impact on margin of V-Flash® Desktop Printer sales.

Materials gross profit for the first six months of 2009 decreased by \$6.4 million or 32.0% to \$13.8 million from \$20.2 million for the 2008 period, and gross profit margin for materials decreased by 3.3 percentage points to 61.6% of revenue from 64.9% of revenue in the 2008 period primarily due to the decline in sales volume of materials, which was adversely affected by the lower level of large-frame systems sales.

Gross profit for services for the first six months of 2009 increased by \$1.8 million or 48.2% to \$5.6 million from \$3.8 million for the 2008 period, and gross profit margin for services increased by 14.8 percentage points to 35.9% of revenue from 21.1% of revenue in the 2008 period. The improved gross profit was due to the combined effect of a decline in fixed costs associated with our decision to cease servicing certain legacy products, resolution of the premature failure of certain system components and reductions in field service costs initiated in 2008.

Operating expenses

As shown in Table 10, total operating expenses decreased by \$9.0 million or 27.6% to \$23.8 million in the first six months of 2009 from \$32.8 million in the first six months of 2008 as our cost savings initiatives have gained traction, as evidenced by continued declines in operating expenses in each of the last seven quarters. This decrease was primarily due to \$7.6 million in lower selling, general and administrative expenses and \$1.4 million of lower research

and development expenses, both of which are discussed below.

Table 10

| | Six Months Ended June 30, | | | |
|--|----------------------------------|----------------------|---------------|----------------------|
| | 2009 | | 2008 | |
| (Dollars in thousands) | Amount | % Revenue | Amount | % Revenue |
| Selling, general and administrative expenses | \$ 18,006 | 36.9% | \$ 25,619 | 37.4% |
| Research and development expenses | 5,753 | 11.8 | 7,175 | 10.5 |
| Total operating expenses | \$ 23,759 | 48.7% | \$ 32,794 | 47.9% |

Table of Contents*Selling, general and administrative expenses*

Selling, general and administrative expenses declined by \$7.6 million to \$18.0 million in the first six months of 2009 compared to \$25.6 million in the first six months of 2008 primarily related to:

- a \$3.1 million decline in compensation costs primarily due to lower staffing levels;
- \$0.9 million of lower accounting fees;
- \$0.7 million of lower contract labor and consultant costs;
- \$0.6 million of lower professional fees (excluding accounting);
- \$0.6 million of lower travel expenses;
- \$0.5 million of lower occupancy costs;
- \$0.4 million of lower advertising expenses; and
- \$0.2 million of lower commissions to outside agents.

Research and development expenses

Research and development expenses decreased by \$1.4 million or 19.8% to \$5.8 million in the first six months of 2009 from \$7.2 million in the same period in 2008, principally due to a \$1.3 million decrease in outside consulting services in the 2009 period and the reduction in costs for 2009 following the commercialization of certain of our new products previously announced in 2008.

Loss from operations

Our loss from operations for the six months ended June 30, 2009 decreased by \$4.0 million to \$2.5 million from \$6.5 million during the six months ended June 30, 2008, including the effect of the second quarter 2008 reclassification discussed above. See *Gross profit and gross profit margins* above. Our reduced loss from operations in the six months ended June 30, 2009 reflected our higher gross profit margin and our lower operating expenses, which partially offset the effect of our lower consolidated revenue.

The following table sets forth operating loss by geographic area for the first six months of 2009 and 2008:

Table 11

| <i>(in thousands)</i> | Six Months Ended June 30, | |
|-------------------------------|----------------------------------|-------------|
| | 2009 | 2008 |
| Income (loss) from operations | | |
| United States | \$ (5,230) | \$ (7,966) |
| Germany | 370 | 478 |
| Other Europe | 707 | 1,079 |
| Asia Pacific | 1,307 | 324 |
| Subtotal | (2,846) | (6,085) |
| Inter-segment elimination | 396 | (404) |
| Total | \$ (2,450) | \$ (6,489) |

With respect to the U.S., the changes in operating loss from 2008 to 2009 reflected the same factors relating to our consolidated operating loss that are discussed above. As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income (loss) in our operations outside the U.S. from 2008 to 2009 resulted primarily from changes in transfer pricing.

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Operating income from our Asia-Pacific operations includes a \$0.5 million bad debt provision related to 2009 sales to our largest Japanese customer, which filed for court protection in February 2009. Receivables prior to the filing have been fully reserved, while sales subsequent to the filing have been on a cash basis.

Interest and other expense (income), net

For the six-month period ended June 30, 2009, interest and other expense (income), net amounted to \$0.5 million net expense compared to \$0.2 million net income for the same period ended June 30, 2008. See *Gross profit and gross profit margins* above.

Table 12 shows the components of the increase:

Table 12

| <i>(in thousands)</i> | Six Months Ended June 30, | | Change |
|------------------------------|----------------------------------|-------------|---------------|
| | 2009 | 2008 | |
| Interest expense | \$ 321 | \$ 468 | \$ (147) |
| Interest income | (11) | (420) | 409 |
| Foreign currency (gain) loss | 166 | (445) | 611 |
| Other | 11 | 226 | (215) |
| Total | \$ 487 | \$ (171) | \$ 658 |

The reduction in interest expense from 2008 resulted from the repayment of the outstanding industrial development bonds in January 2009, while the lower interest income was the result of our having moved our short-term investments into U.S. Treasury funds.

Provision for income taxes

We recorded a provision for income taxes of \$0.5 million in the six months ended June 30, 2009, compared to \$0.7 million for the six months ended June 30, 2008. Our provision for income taxes primarily reflects income taxes in foreign jurisdictions.

Net loss

Our net loss for the first six months of 2009 improved to \$3.4 million, compared to our net loss of \$7.0 million for the first six months of 2008. Our lower net loss for the first six months of 2009 was driven by the \$4.0 million decrease in our operating loss for the period and \$0.2 million reduction in our provision for income taxes, partially offset by the \$0.6 million increase in interest and other expense, net.

For the six months ended June 30, 2009, our weighted average common shares outstanding were 22.4 million, and on a per share basis the basic and diluted loss per share for the same period was \$0.15. For the six months ended June 30, 2008, our weighted average common shares outstanding were 22.3 million, and on a per share basis the basic and diluted loss per share for the same period was \$0.31.

Financial Condition and Liquidity

We generated \$1.8 million of net cash in the first six months of 2009 and finished the period with \$24.0 million of unrestricted cash, compared to \$22.2 million of unrestricted cash at December 31, 2008. This \$1.8 million increase in net cash included \$2.3 million of cash provided by operating activities, consisting of \$4.7 million of non-cash charges that were included in our net loss and \$1.0 million of cash provided by net changes in operating accounts, partially offset by our \$3.4 million net loss. We also used \$0.7 million of cash in investing activities, and generated \$0.2 million of cash from financing activities in 2009. See *Working capital, Cash flow and Outstanding debt and capitalized lease obligations* below.

During 2009, we intend to continue to rely upon our unrestricted cash and cash flow from operations to meet our liquidity needs. While we believe that the actions taken in 2008 and 2009 to reduce our operating costs, improve our gross profit margin and manage working capital should benefit us in 2009, there can be no assurance in these uncertain economic times that these actions will be sufficient.

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Our principal contractual commitments consist of the capital leases on our Rock Hill facility, which are discussed in greater detail below.

Working capital

Our net working capital decreased by \$0.4 million to \$34.9 million at June 30, 2009 from \$35.3 million at December 31, 2008. Table 13 provides a summary of the net changes in working capital items between these two dates.

Table 13

| (Dollars in thousands) | Increase (Decrease) |
|--|--------------------------------|
| Working capital at December 31, 2008 | \$ 35,279 |
| Changes in current assets: | |
| Cash and cash equivalents | 1,865 |
| Accounts receivable, net of allowances | (9,062) |
| Inventories, net of reserves | (1,910) |
| Prepaid expenses and other current assets | 265 |
| Deferred income tax assets | (151) |
| Restricted cash | (3,202) |
| Total current assets | (12,195) |
| Changes in current liabilities: | |
| Current portion of long-term debt | (3,085) |
| Current portion of capitalized lease obligations | 8 |
| Accounts payable | (5,719) |
| Accrued liabilities | (1,116) |
| Customer deposits | (549) |
| Deferred revenue | (1,311) |
| Total current liabilities | (11,772) |
| Net change in working capital | (423) |
| Working capital at June 30, 2009 | \$ 34,856 |

Our unrestricted cash and cash equivalents increased by \$1.8 million to \$24.0 million from \$22.2 million at December 31, 2008. This increase resulted from \$2.3 million of cash provided by operating activities and \$0.2 million of cash provided by financing activities, partially offset by \$0.7 million of cash used in investing activities. See *Cash flow* below.

Accounts receivable, net, decreased by \$9.1 million to \$16.2 million at June 30, 2009 from \$25.3 million at December 31, 2008. This decline was primarily attributable to the collection of year end 2008 accounts receivable balances, which were primarily composed of sales from the fourth quarter. Accounts receivable declined due to lower sales and a decrease in days sales outstanding to 60 days at June 30, 2009 from 66 days at December 31, 2008. Our gross accounts receivable declined by \$8.8 million from December 31, 2008 to June 30, 2009. Accounts receivable more than 90 days past due increased to 12.0% of gross receivables at June 30, 2009 compared to 5.9% of gross receivables at December 31, 2008.

Bad debt expense for the first six months of 2009 was \$0.9 million compared to \$0.3 million in 2008. Our allowance for doubtful accounts increased to \$2.3 million at June 30, 2009 from \$2.0 million at December 31, 2008. This increase primarily relates to 2009 sales to our largest Japanese customer prior to its filing for court protection in February 2009. Together with the amounts reserved in the fourth quarter of 2008 related to 2008 sales to this

customer, all amounts owing from this customer have been fully reserved as of June 30, 2009.

Components of inventories were as follows:

Table 14

| (Dollars in thousands) | June 30, 2009 | December 31, 2008 |
|-------------------------------|--------------------------|------------------------------|
| Raw materials | \$ 1,622 | \$ 1,635 |
| Inventory held by assemblers | 7 | 34 |
| Work in process | 104 | 146 |
| Finished goods and parts | 20,436 | 22,359 |
| Total cost | 22,169 | 24,174 |
| Less: reserves | (3,061) | (3,156) |
| Inventories, net | \$ 19,108 | \$ 21,018 |

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Inventories decreased by \$1.9 million to \$19.1 million at June 30, 2009 from \$21.0 million at December 31, 2008. This decrease resulted primarily from a \$1.9 million decrease in finished goods inventory as our inventory reduction initiatives began to show results. We maintained \$3.1 million of inventory reserves at June 30, 2009 and \$3.2 million of such reserves at December 31, 2008.

As shown in Table 14 above, with the outsourcing of substantially all of our equipment assembly and refurbishment activities, the majority of our inventory now consists of finished goods, including primarily systems, materials and service parts, as our third-party assemblers have taken over supply chain responsibility for the assembly and refurbishment of systems. As a result, we generally no longer hold in inventory most parts for systems production or refurbishment. The inventory held by assemblers shown in Table 14 and a related accrued liability in an amount that corresponds to the book value of inventory held by assemblers included in accrued liabilities on our Condensed Consolidated Balance Sheets relate to the accounting for our outsourcing arrangements pursuant to SFAS No. 49.

Accounts payable declined by \$5.7 million to \$11.4 million at June 30, 2009 from \$17.1 million at December 31, 2008. The decline primarily related to lower payables that corresponded to lower cost of sales in the six months ended June 30, 2009 compared to the year ended December 31, 2008, and the impact of our continuing cost reduction initiatives.

Deferred revenue decreased by \$1.3 million to \$8.1 million at June 30, 2009 from \$9.4 million at December 31, 2008 primarily due to a net decrease in maintenance contracts, installation, training and warranty revenue from shipments in the first six months of 2009.

Restricted cash decreased by \$3.2 million as we utilized it to retire the remaining outstanding industrial development bonds.

The changes in the first six months of 2009 that comprise 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.

Cash flow

Table 15 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 six months of 2009 and 2008.

Table 15

| (Dollars in thousands) | 2009 | 2008 |
|--|-------------|-------------|
| Cash provided by (used in) operating activities | \$ 2,317 | \$ (8,381) |
| Cash used in investing activities | (711) | (3,474) |
| Cash provided by financing activities | 255 | 881 |
| Effect of exchange rate changes on cash | 4 | 394 |
| Net increase (decrease) in cash and cash equivalents | \$ 1,865 | \$ (10,580) |

Cash flow from operations

For the six months ended June 30, 2009, our operating activities provided \$2.3 million of net cash. This source of cash consisted of \$4.7 million of non-cash items included in our net loss and \$1.0 million of cash provided by net changes in operating accounts that were partially offset by our \$3.4 million net loss.

Changes in operating accounts that resulted in a use of cash included the following:

- a \$5.3 million decrease in accounts payable;
- a \$1.4 million decrease in deferred revenue;
- a \$1.1 million decrease in accrued liabilities;

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a \$0.6 million decrease in customer deposits; and
a \$0.1 million increase in prepaid expenses and other current assets.

Changes in operating accounts that resulted in a source of cash included the following:

a \$7.7 million decrease in net receivables; and
a \$1.8 million decrease in inventories.

For the six months ended June 30, 2008, we used \$8.4 million of net cash for operating activities. This use of cash consisted of our \$7.0 million net loss and \$5.7 million of cash consumed by net changes in operating accounts that were partially offset by \$4.4 million of non-cash items included in our net loss.

Changes in operating accounts that resulted in a use of cash included the following:

a \$7.6 million increase in inventories;
a \$2.7 million decrease in accrued liabilities; and
a \$1.6 million decrease in accounts payable.

Changes in operating accounts that resulted in a source of cash included the following:

a \$4.4 million decrease in net receivables; and
a \$2.0 million increase in customer deposits.

Cash flow from investing activities

Net cash used in investing activities in the first six months of 2009 decreased to \$0.7 million from \$3.5 million for the first six months of 2008. This decrease was primarily due to our lower level of 2009 capital expenditures.

We expect our capital expenditures for 2009 to range between \$0.5 million and \$1.5 million for the second half of 2009.

Cash flow from financing activities

Net cash provided by financing activities decreased to \$0.2 million for the six months ended June 30, 2009 compared to \$0.9 million in the 2008 period. This decrease resulted primarily from a decline in cash proceeds from stock options exercised.

Outstanding debt and capitalized lease obligations

At June 30, 2009, capitalized lease obligations decreased to \$8.6 million from \$8.7 million at December 31, 2008 primarily due to scheduled payments of principal on capital lease installments.

Our outstanding industrial development revenue bonds and capitalized lease obligations at June 30, 2009 and December 31, 2008 were as follows:

Table 16

| (Dollars in thousands) | June 30, 2009 | December 31, 2008 |
|---|--------------------------|------------------------------|
| Debt: | | |
| Industrial development revenue bonds | \$ | \$ 3,085 |
| Capitalized lease obligations: | | |
| Current portion of capitalized lease obligations | 203 | 195 |
| Capitalized lease obligations, less current portion | 8,364 | 8,467 |
| Total capitalized lease obligations | 8,567 | 8,662 |
| Total current portion | 203 | 3,280 |
| Total long-term portion | 8,364 | 8,467 |
| Total debt and capitalized lease obligations | \$ 8,567 | \$ 11,747 |

Table of Contents*Capitalized lease obligations*

Following the redemption of the industrial development bonds in January 2009, our principal contractual commitments consist of capitalized lease obligations of \$8.6 million at June 30, 2009.

Outstanding capitalized lease obligations relate to two lease agreements that we entered into during 2006 with respect to our Rock Hill facility, one of which covers the facility itself and the other of which covers certain furniture and fixtures that we acquired for use in the facility. The carrying values of the headquarters facility and the furniture and fixture leases at June 30, 2009 and December 31, 2008 were \$8.6 million and \$8.7 million, respectively.

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 have not adopted hedge accounting under SFAS No. 133, Accounting for Derivatives and Hedging Activities, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 161, and we recognize all gains and losses (realized or unrealized) in interest and other expense (income) in our Condensed Consolidated Statements of Operations.

The dollar equivalent of our foreign currency contracts and their related fair values as of June 30, 2009 and December 31, 2008 were as follows:

Table 17

| (Dollars in thousands) | Foreign Currency Purchase Contracts | |
|----------------------------|--|----------|
| | 2009 | 2008 |
| Notional amount | \$ 1,549 | \$ 1,680 |
| Fair value | 1,539 | 1,699 |
| Net unrealized (loss) gain | \$ (10) | \$ 19 |

At June 30, 2009 and December 31, 2008, the notional amount of these contracts at their respective settlement dates amounted to \$1.5 million and \$1.7 million, respectively. The 2009 and 2008 contracts related primarily to purchases of inventory from third parties. The notional amount of the purchase contracts aggregated CHF 1.7 million and CHF 1.8 million, respectively.

The net fair value of all foreign exchange contracts at June 30, 2009 and December 31, 2008 reflected nominal unrealized gains at June 30, 2009 and December 31, 2008. The foreign currency contracts outstanding at December 31, 2008 expired at various times between January 5, 2009 and February 11, 2009. The foreign currency contracts outstanding at June 30, 2009 expire at various times between July 8, 2009 and August 5, 2009.

Changes in the fair value of derivatives are recorded in interest and other expense (income), net, in our Condensed Consolidated Statements of Operations. 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 Condensed Consolidated Balance Sheets.

The total impact of foreign currency related items on our Condensed Consolidated Statements of Operations for the six months ended June 30, 2009 was a net loss of \$0.2 million. The total impact of foreign currency related items on our Condensed Consolidated Statements of Operations was a net gain of \$0.4 million for the six months ended June 30, 2008.

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Stockholders' equity

Stockholders' equity decreased by \$3.0 million to \$99.2 million at June 30, 2009 from \$102.2 million at December 31, 2008. This decrease was composed of our \$3.4 million net loss reported for the first six months of 2009 and \$0.6 million of foreign currency translation adjustments included in accumulated other comprehensive income, partially offset by \$0.6 million of stock compensation expense recorded in stockholders' equity in accordance with SFAS No. 123(R), the net issuance of \$0.3 million of restricted stock and the exercise of \$0.1 million of stock options during the first six months of 2009.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 16 to the Condensed Consolidated Financial Statements.

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, 2008.

Forward-Looking Statements

Certain statements made in this Quarterly Report on 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 Quarterly Report on 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 includes terms such as believes, belief, expects, intends, anticipates or 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 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, 2008, 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 Quarterly Report on 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 Quarterly Report on Form 10-Q and our other SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2008, which could 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 below are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

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These risks include and relate to:

our ability to generate cash flow from operations and our access to financing and other sources of capital;
financial difficulties that may be experienced by our suppliers, resellers or customers;
global, economic, political and social conditions, which may harm our ability to do business, increase our costs and negatively affect our stock price;
our ability to deliver products that meet changing technology and customer needs;
the costs from our business outside the U.S., which may increase or our revenue from such operations that may decrease, which could have a significant impact on our overall results of operations and financial condition;
the potential impairment of certain intangible assets, which could adversely impact our future earnings and stock price as well as our ability to obtain financing;
the costs of enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings;
the risk that competition could cause our revenue and gross profit margins to decline. Competition in our industry could cause us to reduce sales prices or to incur additional marketing or production costs, which could result in decreased revenue, increased costs and reduced margins;
our dependence upon a single or limited number of suppliers for components and sub-assemblies;
our dependence upon our suppliers generally;
any failure, inadequacy, interruption, or security lapse in the enterprise resource systems or the related technology upon which we rely, which could adversely affect our ability to effectively operate our business;
changes in energy-related expenses;
the effect new pronouncements by accounting authorities may have on operational, financial and reporting aspects of our Company;
our success in entering new marketplaces and acquiring and integrating new businesses;
the impact of the mix of products on our gross profit margin, which could cause fluctuations in our net income or loss;
our potential involvement in product liability claims and litigation;
our ability to develop and commercialize successful new products;
our stock being delisted if we fail to file our required periodic filings with the SEC on a timely basis;
if our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement, which negatively affects our ability to report our results of operations and financial condition accurately and in a timely manner;

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factors beyond our control that cause fluctuations in our operating results;
our stockholders' rights plan and laws that inhibit takeovers;
variations in our operating results from quarter to quarter;
the low daily trading volume of our common stock and the volatility of our stock price;
dilution of ownership and negative impact in the market price of our common stock due to the exercise of
our outstanding stock options; and
our ability to issue preferred stock.

For a more detailed discussion of such risks and uncertainties, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008 and the risk factors noted in our other SEC filings.

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, 2008, 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, 2008. During the first six months of 2009, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2008, except as discussed in the Financial Condition and Liquidity section under Financial Instruments.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

As of June 30, 2009, 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 are designed to provide assurance that 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 management, including our Chief Executive Officer and Chief Financial Officer, in a manner that is intended to allow timely decisions regarding required disclosures.

Based on this evaluation, management has concluded that our disclosure controls and procedures were effective as of June 30, 2009 to provide reasonable assurance that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP and that they are free of material errors.

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Internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Our internal control over financial reporting is supported by written policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with GAAP and that our receipts and expenditures are being made and recorded only in accordance with the authorizations of our management and provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2009 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based upon this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2009.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions and that the degree of compliance with policies and procedures may deteriorate.

Changes in Internal Controls over Financial Reporting

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

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

The information set forth in Note 13 of the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on 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, 2008.

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

On May 19, 2009, we held our annual meeting of stockholders. At the annual meeting, our stockholders:

(i) elected the whole Board of Directors to serve until the next annual meeting and their successors are duly elected and qualified;

(ii) authorized an additional 1,000,000 shares of Common Stock for issuance under our 2004 Incentive Stock Plan; and

(iii) ratified the selection of BDO Seidman, LLP as our independent registered public accounting firm for the year ending December 31, 2009.

A total of 21,698,195 shares of Common Stock were present in person or by proxy at the meeting, representing approximately 97% of the voting power of the Company entitled to vote.

The votes cast on the matters that were brought before the annual meeting, including broker non-votes where applicable, were as set forth below:

| | Number of Votes | |
|--|------------------------|-----------------|
| | In Favor | Withheld |
| Nominees for Election to Board of Directors: | | |
| William E. Curran | 20,214,554 | 1,483,641 |
| Miriam V. Gold | 19,459,883 | 2,238,312 |
| Charles W. Hull | 20,170,753 | 1,527,442 |
| Jim D. Kever | 20,049,625 | 1,648,570 |
| G. Walter Loewenbaum, II | 19,749,844 | 1,948,351 |
| Kevin S. Moore | 20,070,172 | 1,628,023 |
| Abraham N. Reichental | 19,937,469 | 1,760,726 |
| Daniel S. Van Riper | 20,115,232 | 1,582,963 |
| Karen E. Welke | 20,049,738 | 1,648,457 |

| | For | Against | Abstentions | Broker Non-Votes |
|--|------------|----------------|--------------------|-----------------------------|
| Authorization of 1,000,000 shares of Common Stock for issuance under 2004 Incentive Stock Plan | 10,427,532 | 5,024,473 | 44,902 | |
| Ratification of BDO Seidman, LLP as Independent Registered Public Accounting Firm | 21,655,786 | 37,298 | 5,111 | |

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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 June 9, 2006. (Incorporated reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on June 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 June 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 June 30, 2005, filed on August 1, 2005.)
- 3.8 Certificate of Elimination of Series B Preferred Stock filed with the Secretary of State of Delaware on June 9, 2006. (Incorporated reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on June 9, 2006.)
- 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 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.)
- 4.1 Amended and Restated 2004 Incentive Stock Plan. (Incorporated by reference to Exhibit 4.1 of Registrant's Form S-8 filed on May 20, 2009.)
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 3, 2009.

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- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 3, 2009.
- 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 August 3, 2009.
- 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 August 3, 2009.

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
Vice President and Chief Financial Officer
(Principal Financial Officer)
(Duly Authorized Officer)

Date: August 3, 2009