3D SYSTEMS CORP
Form 10-Q
November 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10 Q

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

For the quarterly period ended September 30, 2015

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

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3D SYSTEMS CORPORATION

(Exact name of Registrant as specified in its Charter)

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Shares of Common Stock, par value $0.001, outstanding as of October 28, 2015: 112,077,951

3D SYSTEMS CORPORATION

Quarterly Report on Form 10-Q for the

Quarter Ended September 30, 2015

TABLE OF CONTENTS

PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements.

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (in thousands, except par value) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 157,453 | $ 284,862 |
| Accounts receivable, net of allowance for doubtful accounts of $15,797 (2015) and $10,300 (2014) | 134,492 | 168,441 |
| Inventories, net | 138,181 | 96,645 |
| Prepaid expenses and other current assets | 25,898 | 15,769 |
| Current deferred income tax asset | 25,025 | 14,973 |
| Total current assets | 481,049 | 580,690 |
| Property and equipment, net | 88,540 | 81,881 |
| Intangible assets, net | 267,182 | 251,561 |
| Goodwill | 622,431 | 589,537 |
| Long term deferred income tax asset | 705 | 816 |
| Other assets, net | 21,602 | 21,485 |
| Total assets | $ 1,481,509 | $ 1,525,970 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current portion of debt and capitalized lease obligations | $ 523 | $ 684 |
| Accounts payable | 48,508 | 64,378 |
| Accrued and other liabilities | 49,577 | 44,219 |
| Customer deposits | 7,653 | 6,946 |
| Deferred revenue | 35,455 | 32,264 |
| Total current liabilities | 141,716 | 148,491 |
| Long term portion of capitalized lease obligations | 8,372 | 8,905 |
| Long term deferred income tax liability | 26,880 | 30,679 |
| Other liabilities | 41,793 | 34,898 |
| Total liabilities | 218,761 | 222,973 |
| Redeemable noncontrolling interests | 8,872 | 8,872 |

Stockholders’ equity:

| | | |
|---|---|---|
| Common stock, $0.001 par value, authorized 220,000 shares; issued 112,425 (2015) and 112,233 (2014) | 112 | 112 |
| Additional paid-in capital | 1,275,565 | 1,245,462 |
| Treasury stock, at cost: 378 shares (2015) and 709 shares (2014) | (412) | (374) |
| Accumulated earnings | 12,998 | 72,124 |
| Accumulated other comprehensive loss | (39,445) | (24,406) |
| Total 3D Systems Corporation stockholders' equity | 1,248,818 | 1,292,918 |
| Noncontrolling interests | 5,058 | 1,207 |
| Total stockholders’ equity | 1,253,876 | 1,294,125 |
| Total liabilities, redeemable noncontrolling interests and stockholders’ equity | $ 1,481,509 | $ 1,525,970 |

See accompanying notes to condensed consolidated financial statements

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share amounts) | 2015 | 2014 | 2015 | 2014 |
| Revenue: | | | | |
| Products | $ 87,747 | $ 111,926 | $ 292,146 | $ 313,104 |
| Services | 63,827 | 55,018 | 190,654 | 153,110 |
| Total revenue | 151,574 | 166,944 | 482,800 | 466,214 |
| Cost of sales: | | | | |
| Products | 48,472 | 57,627 | 156,432 | 155,675 |
| Services | 32,064 | 29,519 | 94,719 | 82,871 |
| Total cost of sales | 80,536 | 87,146 | 251,151 | 238,546 |
| Gross profit | 71,038 | 79,798 | 231,649 | 227,668 |
| Operating expenses: | | | | |
| Selling, general and administrative | 83,212 | 53,656 | 237,242 | 152,698 |
| Research and development | 22,463 | 17,934 | 70,410 | 52,883 |
| Total operating expenses | 105,675 | 71,590 | 307,652 | 205,581 |
| Income (loss) from operations | (34,637) | 8,208 | (76,003) | 22,087 |
| Interest and other expense, net | 1,373 | 3,955 | 4,029 | 6,479 |
| Income (loss) before income taxes | (36,010) | 4,253 | (80,032) | 15,608 |
| Provision (benefit) for income taxes | (3,524) | 1,113 | (20,563) | 5,366 |
| Net income (loss) | (32,486) | 3,140 | (59,469) | 10,242 |
| Less net income (loss) attributable to noncontrolling interests | (237) | 56 | (343) | 156 |
| Net income (loss) attributable to 3D Systems Corporation | $ (32,249) | $ 3,084 | $ (59,126) | $ 10,086 |
| Net income (loss) per share available to 3D Systems Corporation common stockholders — basic and diluted | $ (0.29) | $ 0.03 | $ (0.53) | $ 0.09 |
| Other comprehensive income (loss): | | | | |
| Pension adjustments, net of taxes | $ 14 | $ 91 | $ 276 | $ 136 |
| Foreign currency loss | (9,957) | (10,897) | (17,903) | (9,263) |
| Other comprehensive loss | (9,943) | (10,806) | (17,627) | (9,127) |
| Less foreign currency translation loss attributable to noncontrolling interests | (882) | (73) | (2,588) | (71) |
| Other comprehensive loss attributable to 3D Systems Corporation | (9,061) | (10,733) | (15,039) | (9,056) |
| Comprehensive income (loss) | (42,429) | (7,666) | (77,096) | 1,115 |

| | | | | |
|---|---|---|---|---|
| Less comprehensive income (loss) attributable to noncontrolling interests | (1,119) | (17) | (2,931) | 85 |
| Comprehensive income (loss) attributable to 3D Systems Corporation | $ (41,310) | $ (7,649) | $ (74,165) | $ 1,030 |

See accompanying notes to condensed consolidated financial statements.

4

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| (in thousands) | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (59,469) | $ 10,242 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Benefit of deferred income taxes | (21,971) | (19,113) |
| Depreciation and amortization | 63,905 | 39,563 |
| Provision for arbitration award | 11,282 | — |
| Impairment of investment | 1,111 | — |
| Non-cash interest on convertible notes | — | 224 |
| Provision for bad debts | 4,123 | 4,394 |
| Provision for inventory obsolescence and revaluation | 9,191 | 2,065 |
| Stock-based compensation | 28,850 | 23,738 |
| Loss on the disposition of property and equipment | 1,182 | 176 |
| Loss on conversion of convertible debt | — | 1,806 |
| Changes in operating accounts: | | |
| Accounts receivable | 37,426 | (40,347) |
| Inventories | (50,178) | (40,101) |
| Prepaid expenses and other current assets | (10,136) | (6,725) |
| Accounts payable | (19,657) | 11,925 |
| Accrued and other liabilities | (5,348) | 8,254 |
| Customer deposits | 566 | 1,848 |
| Deferred revenue | (1,748) | 5,813 |
| Other operating assets and liabilities | 263 | 24,136 |
| Net cash provided by (used in) operating activities | (10,608) | 27,898 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (18,064) | (16,783) |
| Additions to license and patent costs | (719) | (547) |
| Cash paid for acquisitions, net of cash assumed | (91,799) | (244,290) |
| Other investing activities | (3,750) | (300) |
| Net cash used in investing activities | (114,332) | (261,920) |
| Cash flows from financing activities: | | |
| Tax benefits from share-based payment arrangements | 467 | 6,870 |
| Proceeds from issuance of common stock | — | 299,729 |
| Proceeds from exercise of stock options and restricted stock, net | 748 | 1,603 |
| Repayment of capital lease obligations | (788) | (317) |

| | | |
|---|---|---|
| Net cash provided by financing activities | 427 | 307,885 |
| Effect of exchange rate changes on cash | (2,896) | (2,844) |
| Net increase (decrease) in cash and cash equivalents | (127,409) | 71,019 |
| Cash and cash equivalents at the beginning of the period | 284,862 | 306,316 |
| Cash and cash equivalents at the end of the period | $ 157,453 | $ 377,335 |
| | | |
| Cash interest payments | $ 494 | $ 1,345 |
| Cash income tax payments | 11,532 | 12,654 |
| Transfer of equipment from inventory to property and equipment, net (a) | 8,812 | 9,530 |
| Transfer of equipment to inventory from property and equipment, net (b) | 5,821 | 4,875 |
| Stock issued for acquisitions of businesses | — | 24,625 |
| Notes redeemed for shares of common stock | — | 12,540 |

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

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

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

| (In thousands, except par value) | Common Stock Shares | Common Stock Par Value $0.001 | Additional Paid In Capital | Treasury Stock Shares | Treasury Stock Amount | Accumulated Earnings | Accumulated Other Comprehensive Income (Loss) | Total 3D Systems Corporation Stockholders' Equity | Equity Attributable to Noncontrolling Interests | Total Stock Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2014 | 112,233 | $ 112 | $ 1,245,462 | 709 | $ (374) | $ 72,124 | $ (24,406) | $ 1,292,918 | $ 1,207 | $ 1,29 |
| Tax benefits from share-based payment arrangements | — | — | 467 | — | — | — | — | 467 | — | 467 |
| Issuance (repurchase) of restricted stock, net | 192 | — | 786 | (331) | (38) | — | — | 748 | — | 748 |
| Stock-based compensation expense | — | — | 28,850 | — | — | — | — | 28,850 | — | 28,8 |
| Net income (loss) | — | — | — | — | — | (59,126) | — | (59,126) | (343) | (59, |
| Noncontrolling interests for business combinations | — | — | — | — | — | — | — | — | 6,782 | 6,78 |
| Pension adjustment | — | — | — | — | — | — | 276 | 276 | — | 276 |
| Foreign currency translation adjustment | — | — | — | — | — | — | (15,315) | (15,315) | (2,588) | (17, |
| | 112,425 | $ 112 | $ 1,275,565 | 378 | $ (412) | $ 12,998 | $ (39,445)(a) | $ 1,248,818 | $ 5,058 | $ 1,25 |

Balance at September 30, 2015

(a) Accumulated other comprehensive loss of $39,445 consists of foreign currency translation loss of $37,510 and a cumulative unrealized pension loss of $1,935.

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of 3D Systems Corporation and its subsidiaries (collectively, the “Company”). All significant intercompany transactions and balances have been eliminated in consolidation. The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim reports. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements and should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K (“Form 10-K”) for the year ended December 31, 2014.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The results of operations for the quarter and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

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

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

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

Recent Accounting Pronouncements

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail inventory method. It is effective for annual reporting periods beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently in the process of evaluating the impact of adoption of ASU 2015-11 on its financial statements.

In August 2015, the FASB issued Accounting Standards Update No. 2015-14, “Revenue from Contracts with Customers: Deferral of the Effective Date” (“ASU 2015-14”), a revision to Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers”, which was originally issued on May 28, 2014. For public business entities, certain not-for-profit entities, and certain employee benefit plans, the effective date was for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The effective date for all other entities was for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. ASU 2015-14 will defer these effective dates for all entities by one year. The Company is currently in the process of evaluating the impact of adoption of ASU 2015-14 on its financial statements.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, “Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in ASU 2015-16 require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015. The Company is currently in the process of evaluating the impact of adoption of ASU 2015-16 on its financial statements.

No other new accounting pronouncements, issued or effective during the third quarter of 2015, have had or are expected to have a significant impact on the Company’s consolidated financial statements.

(2) Acquisitions

No acquisitions were made in the third quarter of 2015.

(3) Inventories

Components of inventories, net as of September 30, 2015 and December 31, 2014 were as follows:

| (in thousands) | 2015 | 2014 |
|---|---|---|
| Raw materials | $ 59,693 | $ 46,850 |
| Work in process | 5,415 | 2,304 |
| Finished goods and parts | 73,073 | 47,491 |
| Inventories, net | $ 138,181 | $ 96,645 |

(4) Property and Equipment

Property and equipment, net, as of September 30, 2015 and December 31, 2014 were as follows:

| (in thousands) | 2015 | 2014 | Useful Life (in years) |
|---|---|---|---|
| Land | $ 903 | $ 541 | N/A |
| Building | 10,973 | 9,370 | 25 |
| Machinery and equipment | 104,818 | 84,443 | 3-7 |
| Capitalized software | 4,793 | 3,693 | 3-5 |
| Office furniture and equipment | 4,879 | 3,478 | 3-5 |
| Leasehold improvements | 18,296 | 12,447 | Life of lease (a) |
| Rental equipment | 516 | 557 | 5 |
| Construction in progress | 9,481 | 20,082 | N/A |
| Total property and equipment | 154,659 | 134,611 | |
| Less: Accumulated depreciation and amortization | (66,119) | (52,730) | |
| Total property and equipment, net | $ 88,540 | $ 81,881 | |

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

For the quarter and nine months ended September 30, 2015, depreciation expense on property and equipment was $5,908 and $15,308, respectively, compared to $3,828 and $10,320, respectively, for the quarter and nine months ended September 30, 2014.

(5) Intangible Assets

Intangible assets, net, other than goodwill as of September 30, 2015 and December 31, 2014 were as follows:

| | 2015 | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net | Useful Life (in years) | Weighted Average Useful Life Remaining (in years) |
| Intangible assets with finite lives: | | | | | | | | |
| Licenses | $ 5,875 | $ (5,875) | $ — | $ 5,875 | $ (5,875) | $ — | N/A | N/A |
| Patent costs | 20,872 | (8,201) | 12,671 | 20,733 | (7,369) | 13,364 | 5-20 | 3 |
| Acquired technology | 73,365 | (27,793) | 45,572 | 57,383 | (18,241) | 39,142 | 3-10 | 4 |
| Internally developed software | 9,072 | (6,599) | 2,473 | 9,073 | (5,517) | 3,556 | 1-8 | <1 |
| Customer relationships | 189,961 | (54,018) | 135,943 | 157,139 | (36,975) | 120,164 | 3-11 | 2 |
| Non-compete agreements | 19,818 | (12,047) | 7,771 | 35,469 | (11,784) | 23,685 | 3-11 | 3 |
| Trade names | 29,340 | (6,950) | 22,390 | 21,800 | (4,455) | 17,345 | 2-10 | 5 |
| Other | 56,675 | (16,313) | 40,362 | 39,100 | (6,905) | 32,195 | 4-10 | 1 |
| Intangible assets with indefinite lives: | | | | | | | | |
| Trademarks | — | — | — | 2,110 | — | 2,110 | N/A | N/A |
| Total intangible assets | $ 404,978 | $ (137,796) | $ 267,182 | $ 348,682 | $ (97,121) | $ 251,561 | 1-20 | 4 |

For the quarter and nine months ended September 30, 2015, the Company capitalized $159 and $719, respectively, of costs incurred to internally develop and extend patents in the United States and various other countries, compared to $165 and $547, respectively, for the quarter and nine months ended September 30, 2014.

For the quarter and nine months ended September 30, 2015, amortization expense on intangible assets was $15,843 and $47,840, respectively, compared to $11,096 and $28,510, respectively, for the quarter and nine months ended September 30, 2014.

For the years ended 2015, 2016, 2017, 2018, and 2019, annual amortization expense on intangible assets is expected to be $67,617, $54,739, $47,227, $39,083 and $28,466, respectively.

(6) Accrued and Other Liabilities

Accrued liabilities as of September 30, 2015 and December 31, 2014 were as follows:

| (in thousands) | 2015 | 2014 |
|---|---|---|
| Compensation and benefits | $ 25,466 | $ 20,726 |
| Vendor accruals | 14,625 | 10,451 |
| Accrued professional fees | 1,333 | 532 |
| Accrued taxes | 3,878 | 8,577 |
| Royalties payable | 1,217 | 1,796 |
| Accrued interest | 117 | 43 |
| Accrued earnouts related to acquisitions | 162 | 185 |
| Accrued other | 2,779 | 1,909 |
| Total | $ 49,577 | $ 44,219 |

Other liabilities as of September 30, 2015 and December 31, 2014 were as follows:

| (in thousands) | 2015 | 2014 |
|---|---|---|
| Defined benefit pension obligation | $ 6,542 | $ 7,062 |
| Long term tax liability | 1,711 | 2,029 |
| Long term earnouts related to acquisitions | 9,407 | 8,970 |
| Long term deferred revenue | 7,410 | 7,627 |
| Other long term liabilities | 16,723 | 9,210 |
| Total | $ 41,793 | $ 34,898 |

For the quarter and nine months ended September 30, 2015, other long term liabilities includes an $11,282 expense provision related to an arbitration award. See Note 15.

(7) Hedging Activities and Financial Instruments

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

There were no foreign currency contracts outstanding as of September 30, 2015 or December 31, 2014.

For the quarter and nine months ended September 30, 2015, the condensed consolidated statements of operations include a foreign currency transaction gain of $126 and loss of $1,641, respectively, compared to foreign currency transaction losses of $1,740 and $3,085, respectively, for the quarter and nine months ended September 30, 2014.

For the quarter and nine months ended September 30, 2015, the total impact of foreign currency translation on accumulated other comprehensive income (loss) reflects a loss of $9,075 and a loss of $15,315, respectively, compared to losses of $10,824 and $9,192, respectively, for the quarter and nine months ended September 30, 2014.

(8) Borrowings

Credit Facility

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

The Credit Agreement is guaranteed by certain of the Company’s material domestic subsidiaries (the “Guarantors”). From time to time, the Company may be required to cause additional material domestic subsidiaries to become Guarantors under the Credit Agreement.

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

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

The Credit Agreement contains customary representations, warranties, covenants and default provisions for a Credit Facility of this type, including, but not limited to, financial covenants, limitations on liens and the incurrence of debt, covenants to preserve corporate existence and comply with laws and covenants regarding the use of proceeds of the Credit Facility. The financial covenants include a maximum consolidated total leverage ratio, which is the ratio of consolidated total funded indebtedness to consolidated EBITDA (earnings before interest, taxes, depreciation and amortization expense), as defined in the Credit Agreement, of 3.00 to 1.00, and a minimum interest coverage ratio, which is the ratio of Consolidated EBITDA to cash interest expense, of 3.50 to 1.00. The Company is only required to be in compliance with the financial covenants as of the end of any fiscal quarter in which there are any loans outstanding at any time during such fiscal quarter. Based on current financial covenant limitations at September 30, 2015, availability on the Credit Facility would be approximately $110,000. Future results may positively or negatively impact availability.

The payment of dividends on the Company's common stock is restricted under provisions of the Credit Facility, which limits the amount of cash dividends that the Company may pay in any one fiscal year to $30,000. The Company currently does not pay, and has not paid, any dividends on its common stock, and currently intends to retain any future earnings for use in its business.

There was no outstanding balance on the Credit Facility as of September 30, 2015 or December 31, 2014.

Capitalized Lease Obligations

The Company's capitalized lease obligations primarily includes a lease agreement that was entered into during 2006 with respect to the Company's corporate headquarters located in Rock Hill, SC. Capitalized lease obligations decreased to $8,895 at September 30, 2015 from $9,434 at December 31, 2014, primarily due to the normal scheduled timing of payments.

(9) Stock-based Compensation Plans

Effective May 19, 2004, the Company adopted its 2004 Incentive Stock Plan, as further amended and restated on February 3, 2015 (the "2004 Stock Plan") and its 2004 Restricted Stock Plan for Non-Employee Directors (the "2004 Director Plan"). On May 19, 2015, the Company's stockholders approved the 2015 Incentive Plan of 3D Systems Corporation (the "2015 Plan" and, together with the 2004 Stock Plan, the "Incentive Plans").

The 2015 Plan authorizes awards of restricted stock, restricted stock units, stock appreciation rights, cash incentive awards and the grant of options to purchase the Company's common stock. The 2015 Plan also designates measures that may be used for performance awards.

The maximum number of shares of common stock reserved for issuance under the 2015 Plan is 6,300. Generally, each restricted stock award or restricted stock unit award is made with a vesting period of three years to five years from the date of grant.

The purpose of the 2015 Plan is to provide an incentive that permits the persons responsible for the Company's growth to share directly in that growth and to better align their interests with the interests of the Company's stockholders. Any person who is an employee or director of or consultant to the Company, or a subsidiary or an affiliate of the Company, is eligible to be considered for the grant of awards pursuant to the 2015 Plan. The 2015 Plan is administered by the Compensation Committee of the Board of Directors or a subcommittee thereof, which, pursuant to the provisions of the 2015 Plan, has the authority to determine recipients of awards under that plan, the number of shares to be covered by such awards and the terms and conditions of each award. Notwithstanding the foregoing, only the full Board of Directors may grant and administer awards under the 2015 Plan to non-employee directors. The 2015 Plan may be amended, altered or discontinued at the sole discretion of the Board of Directors at any time.

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). Stock-based compensation expense for the quarter and nine months ended September 30, 2015 and 2014 was as follows:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2015 | 2014 | 2015 | 2014 |
| Restricted stock awards | $ 8,800 | $ 8,100 | $ 28,850 | $ 23,738 |

The number of shares and units of restricted common stock awarded and the weighted average fair value per share and unit for the quarter and nine months ended September 30, 2015 and 2014 were as follows:

| | Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| (in thousands, except per share amounts) | Number of Shares/Units | Weighted Average Fair Value | Number of Shares/Units | Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the Incentive Plans, non-executive employees | 181 | $ 15.97 | 88 | $ 52.73 |
| Total restricted stock awards | 181 | $ 15.97 | 88 | $ 52.73 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| (in thousands, except per share amounts) | Number of Shares/Units | Weighted Average Fair Value | Number of Shares/Units | Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the Incentive Plans, non-executive employees | 620 | $ 22.78 | 464 | $ 65.35 |
| Granted under the Incentive Plans, executive officers | 85 | 27.50 | 30 | 75.76 |
| Granted under the 2004 Director Plan, non-employee directors | 24 | 22.61 | 17 | 49.26 |
| Total restricted stock awards | 729 | $ 23.29 | 511 | $ 65.43 |

For the quarter and nine months ended September 30, 2015, the Company recorded $543 of stock compensation expense related to non-employee directors, compared to $849 for the quarter and nine months ended September 30, 2014.

As of September 30, 2015, there were no shares or units under awards that remained subject to acceptance, compared to 35 shares or awards subject to acceptance as of September 30, 2014.

(10) Earnings (Loss) Per Share

The Company presents basic and diluted earnings (loss) per share ("EPS") amounts. Basic EPS is calculated by dividing net income (loss) attributable to 3D Systems Corporation available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS is calculated by dividing net income (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 for the quarter and nine months ended September 30, 2015 and 2014:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share amounts) | 2015 | 2014 | 2015 | 2014 |
| Numerator for basic and diluted net earnings per share: | | | | |
| Net income (loss) attributable to 3D Systems Corporation | $ (32,249) | $ 3,084 | $ (59,126) | $ 10,086 |
| Denominator for basic and diluted net earnings per share: | | | | |
| Weighted average shares | 112,010 | 110,737 | 111,920 | 106,923 |
| Earnings (loss) per share, basic and diluted | $ (0.29) | $ 0.03 | $ (0.53) | $ 0.09 |
| Interest expense excluded from diluted earnings per share calculation (a) | $ — | $ — | $ — | $ 362 |
| 5.50% Convertible notes shares excluded from diluted earnings per share calculation (a) | — | — | — | 584 |
| Restricted stock units excluded from diluted earnings per share calculation (b) | 109 | — | 61 | — |

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

(b) Average outstanding diluted earnings (loss) per share calculation excludes restricted stock units since the effect of their inclusion would have been anti-dilutive.

(11) Fair Value Measurements

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities;
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

| | Fair Value Measurements as of September 30, 2015 | | | |
|---|---|---|---|---|
| (in thousands) | Level 1 | Level 2 | Level 3 | Total |
| Description | | | | |
| Cash equivalents (a) | $ 34,928 | $ — | $ — | $ 34,928 |
| Redeemable noncontrolling interests (b) | $ — | $ — | $ 8,872 | $ 8,872 |

| | Fair Value Measurements as of December 31, 2014 | | | |
|---|---|---|---|---|
| (in thousands) | Level 1 | Level 2 | Level 3 | Total |
| Description | | | | |
| Cash equivalents (a) | $ 190,628 | $ — | $ — | $ 190,628 |
| Redeemable noncontrolling interests (b) | $ — | $ — | $ 8,872 | $ 8,872 |

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

[b] Redeemable noncontrolling interests represents a put option that owners of interests in a certain subsidiary have the right, in certain circumstances, to require the Company to acquire either a portion of, or all of, the remaining ownership interests held by them. The Company determines the fair value of the redeemable noncontrolling interests based on unobservable inputs considering the assumptions that market participants would make in pricing the obligation. Given the significance of the unobservable inputs, the valuations are classified in level 3 of the fair value hierarchy. See Note 14.

The Company did not have any transfers of assets and liabilities between Level 1, Level 2 and Level 3 of the fair value measurement hierarchy during the quarter and nine months ended September 30, 2015.

In addition to the financial assets included in the above table, certain of our non-financial assets and liabilities are to be initially measured at fair value on a non-recurring basis. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and non-financial, long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets and liabilities, including goodwill, other intangible assets and property and equipment, are measured at fair value when there is an indication of impairment and are recorded at fair value only when impairment is recognized. The Company recorded a $1,111 impairment related to a venture investment as of September 30, 2015. There were no other adjustments or write-downs related to such assets or to any other significant non-financial assets or non-financial liabilities as of September 30, 2015 or December 31, 2014.

For additional discussion of our goodwill impairment testing process and other 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, 2014.

(12) Income Taxes

For the quarter and nine months ended September 30, 2015, the Company’s effective tax rate was 9.8% and 25.7%, respectively, compared to 26.2% and 34.4%, respectively, for the quarter and nine months ended September 30, 2014.

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

Tax years 2012 through 2014 remain subject to examination by the U.S. Internal Revenue Service. The Company has utilized U.S. loss carryforwards causing the years 1997 to 2007 to be subject to examination. The Company files income tax returns (which are open to examination beginning in the year shown in parentheses) in Australia (2009), Belgium (2012), Brazil (2010), China (2012), France (2012), Germany (2010), India (2011), Israel (2012), Italy (2011), Japan (2010), Korea (2010), Mexico (2010), Netherlands (2010), Switzerland (2010), the United Kingdom (2014) and Uruguay (2010).

(13) Segment Information

The Company operates in one reportable business segment. The Company conducts its business through various research and production facilities and sales offices located throughout the Asia Pacific region (Australia, China, India, Japan and Korea), Brazil, Europe (Belgium, France, Germany, Italy, the Netherlands, Switzerland and the United Kingdom), Israel and the United States. The Company has historically disclosed summarized financial information for the geographic areas of operations as if they were segments in accordance with ASC 280, “Segment Reporting.” Financial information concerning the Company’s geographical locations is based on the location of the selling entity. Such summarized financial information concerning the Company’s geographical operations is shown in the following tables:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2015 | 2014 | 2015 | 2014 |
| Revenue from unaffiliated customers: | | | | |

| | | | | |
|---|---|---|---|---|
| Americas | $ 80,724 | $ 90,992 | $ 257,382 | $ 237,919 |
| Germany | 18,972 | 19,843 | 61,567 | 63,230 |
| Other EMEA | 26,063 | 27,364 | 84,475 | 73,556 |
| Asia Pacific | 25,815 | 28,745 | 79,376 | 91,509 |
| Total revenue | $ 151,574 | $ 166,944 | $ 482,800 | $ 466,214 |

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2015 | 2014 | 2015 | 2014 |
| Revenue by class of product and service: | | | | |
| Products | $ 52,899 | $ 72,917 | $ 183,790 | $ 195,618 |
| Materials | 34,848 | 39,009 | 108,356 | 117,486 |
| Services | 63,827 | 55,018 | 190,654 | 153,110 |
| Total revenue | $ 151,574 | $ 166,944 | $ 482,800 | $ 466,214 |

| | Quarter Ended September 30, 2015 Intercompany Sales to | | | | |
|---|---|---|---|---|---|
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ 1,160 | $ 8,771 | $ 3,406 | $ 4,583 | $ 17,920 |
| Germany | 171 | — | 1,919 | — | 2,090 |
| Other EMEA | 13,320 | 1,790 | 1,132 | 664 | 16,906 |
| Asia Pacific | 710 | — | 50 | 1,153 | 1,913 |
| Total | $ 15,361 | $ 10,561 | $ 6,507 | $ 6,400 | $ 38,829 |

| | Quarter Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ — | $ 10,137 | $ 4,512 | $ 4,634 | $ 19,283 |
| Germany | 2,063 | — | 2,002 | 8 | 4,073 |
| Other EMEA | 8,713 | 575 | 546 | 156 | 9,990 |
| Asia Pacific | 705 | — | — | 727 | 1,432 |
| Total | $ 11,481 | $ 10,712 | $ 7,060 | $ 5,525 | $ 34,778 |

| | Nine Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ 2,480 | $ 28,581 | $ 14,609 | $ 13,025 | $ 58,695 |
| Germany | 377 | — | 3,812 | — | 4,189 |
| Other EMEA | 44,634 | 3,325 | 2,715 | 5,055 | 55,729 |
| Asia Pacific | 2,140 | — | 68 | 2,495 | 4,703 |
| Total | $ 49,631 | $ 31,906 | $ 21,204 | $ 20,575 | $ 123,316 |

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ — | $ 30,999 | $ 14,169 | $ 10,430 | $ 55,598 |
| Germany | 2,918 | — | 4,830 | 8 | 7,756 |
| Other EMEA | 29,688 | 2,438 | 1,554 | 1,602 | 35,282 |
| Asia Pacific | 1,518 | — | — | 1,930 | 3,448 |
| Total | $ 34,124 | $ 33,437 | $ 20,553 | $ 13,970 | $ 102,084 |

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2015 | 2014 | 2015 | 2014 |
| Income (loss) from operations: | | | | |
| Americas | $ (38,736) | $ (767) | $ (91,028) | $ (9,833) |
| Germany | 3,092 | 1,299 | 4,384 | 1,947 |
| Other EMEA | (5,598) | 643 | (7,871) | 5,168 |
| Asia Pacific | 6,991 | 7,136 | 19,917 | 25,658 |
| Subtotal | (34,251) | 8,311 | (74,598) | 22,940 |
| Inter-segment elimination | (386) | (103) | (1,405) | (853) |
| Total | $ (34,637) | $ 8,208 | $ (76,003) | $ 22,087 |

| (in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Assets: | | |
| Americas | $ 918,427 | $ 1,018,113 |
| Germany | 57,275 | 47,524 |
| Other EMEA | 404,748 | 382,259 |
| Asia Pacific | 101,059 | 78,074 |
| Total | $ 1,481,509 | $ 1,525,970 |

| (in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents: | | |
| Americas | $ 105,479 | $ 245,219 |
| Germany | 11,626 | 6,640 |
| Other EMEA | 20,684 | 15,556 |
| Asia Pacific | 19,664 | 17,447 |
| Total | $ 157,453 | $ 284,862 |

(14) Commitments and Contingencies

The Company leases office space and certain furniture and fixtures under various non-cancelable operating leases. For the quarter and nine months ended September 30, 2015, rent expense under operating leases was $3,362 and $9,974, respectively, compared to $2,763 and $7,673, respectively, for the quarter and nine months ended, September 30, 2014.

As of September 30, 2015 and December 31, 2014, the Company had supply commitments on printer assemblies that totaled $59,636 and $56,620, respectively.

Certain of the Company’s acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. As of the September 30, 2015 and December 31, 2014, the total liabilities recorded for these earnouts were $9,569 and $9,155, respectively.

Put Options

Owners of interests in a certain subsidiary have the right in certain circumstances to require the Company to acquire either a portion of or all of the remaining ownership interests held by them. The owners’ ability to exercise any such “put option” right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to a specified exercise date. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts in 2019.

Management estimates, assuming that the subsidiary owned by the Company at September 30, 2015, performs over the relevant future periods at their forecasted earnings levels, that these rights, if exercised, could require the Company, in future periods, to pay approximately $8,872 to the owners of such rights to acquire such ownership interests in the relevant subsidiary. This amount has been recorded as redeemable noncontrolling interests on the balance sheet at September 30, 2015 and December 31, 2014. The ultimate amount payable relating to this transaction will vary because it is dependent on the future results of operations of the subject business.

The following table presents changes in the redeemable noncontrolling interest for the nine months ended September 30, 2015 and year ended December 31, 2014:

| (in thousands) | 2015 | 2014 |
|---|---|---|
| Beginning balance | $ 8,872 | $ — |
| Changes in redemption value | — | 8,550 |
| Currency translation adjustments | — | 322 |
| Ending balance | $ 8,872 | $ 8,872 |

Litigation

Securities and Derivative Litigation

The Company and certain of its executive officers have been named as defendants in three putative stockholder class action lawsuits filed in the United States District Court for the District of South Carolina on June 12, 2015, June 23, 2015 and August 10, 2015. The lawsuits are styled City of Bristol Pension Fund v. 3D Systems Corporation, et al., Case No. 0:15-cv-02393-MGL (D.S.C.), Joshua Romano v. 3D Systems Corporation, et al., Case No. 0:15-cv-02518-MGL (D.S.C.) and James Pruitt v. 3D Systems Corporation, et al., Case No. 0:15-cv-03138-MGL (D.S.C.). The complaints are substantially identical and allege that defendants violated the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated thereunder by making false and misleading statements and omissions and that the officers are control persons under Section 20(a) of the Exchange Act. The complaints are filed on behalf of stockholders who purchased shares of the Company’s common stock between October 29, 2013, and October 22, 2014 and seek monetary damages on behalf of the purported class.

On October 1, 2015, an order consolidating the three lawsuits described above into one action (the “Securities Class Action”) and appointing a lead plaintiff was entered in the U.S. District Court for the District of South Carolina.

The following four related derivative complaints have been filed by purported Company stockholders against certain of the Company’s executive officers and members of its Board of Directors: (1) Steyn v. Reichental, et al., Case No. 2015-CP-46-2225 filed on July 27, 2015 in the Court of Common Pleas for the 16th Judicial Circuit, County of York, South Carolina (“Steyn”); (2) Piguing v. Reichental, et al., Case No. 2015-CP-46-2396 filed on August 7, 2015 in the Court of Common Pleas for the 16th Judicial Circuit, County of York, South Carolina (Piguing”); (3) Booth v. Reichental, et al., Case No. 15-692-RGA filed on August 6, 2015 in the United States District Court for the District of Delaware (“Booth”); and (4) Nally v. Reichental, et al., Case No. 15-3756-MGL filed on September 18, 2015 in the United States District Court for the District of South Carolina (“Nally”).

The Steyn, Piguing, Booth and Nally actions were brought derivatively on behalf of the Company, which is also named as a nominal defendant. The complaints allege claims for breach of fiduciary duty, waste of corporate assets, and unjust enrichment and seek, among other things, monetary damages and certain corporate governance actions.

The Steyn and Piguing actions were consolidated on August 28, 2015.  Plaintiffs in the consolidated Steyn/Piguing action and the Booth action have agreed to stay their proceedings until the earlier of the close of discovery or the deadline for appealing a dismissal in the Securities Class Action.

The Company believes the claims alleged in the putative Securities Class Action and the derivative lawsuits are without merit and intends to defend the Company and its officers and directors vigorously.

Ronald Barranco and Print3D Corporation v. 3D Systems Corporation, et.al.

On August 23, 2013, Ronald Barranco, a former Company employee, filed two lawsuits against the Company and certain officers in the United States District Court for the District of Hawaii. The first lawsuit (“Barranco I”) is captioned Ronald Barranco and Print3D Corporation v. 3D Systems Corporation, 3D Systems, Inc., and Damon Gregoire, Case No. CV 13-411 LEK RLP, and alleges seven causes of action relating to the Company’s acquisition of Print3D Corporation (of which Mr. Barranco was a 50% shareholder) and subsequent employment of Mr. Barranco. The second lawsuit (“Barranco II”) is captioned Ronald Barranco v. 3D Systems Corporation, 3D Systems, Inc., Abraham Reichental, and Damon Gregoire, Case No. CV 13-412 LEK RLP, and alleges the same seven causes of action relating to the Company’s acquisition of certain website domains from Mr. Barranco and subsequent employment of Mr. Barranco.  Both Barranco I and Barranco II allege the Company breached certain purchase agreements in order to avoid paying Mr. Barranco additional monies pursuant to royalty and earn out provisions in the agreements. The Company and its officers timely filed responsive pleadings on October 22, 2013 seeking, inter alia, to dismiss Barranco I due to a mandatory arbitration agreement and for lack of personal jurisdiction and to dismiss Barranco II for lack of personal jurisdiction.

With regard to Barranco I, the Hawai'i district court, on February 28, 2014, denied the Company's motion to dismiss and its motion to transfer venue to South Carolina for the convenience of the parties. However, the Hawai'i court recognized that the plaintiff's claims are all subject to mandatory and binding arbitration in Charlotte, North Carolina. Because the Hawai'i court was without authority to compel arbitration outside of Hawai'i, the court ordered that the case be transferred to the district court encompassing Charlotte (the Western District of North Carolina) so that that court could compel arbitration in Charlotte. On April 17, 2014, Barranco I was transferred in to the Western District of North Carolina. Plaintiff filed a demand for arbitration on October 29, 2014. On December 9, 2014, the Company filed its answer to plaintiff's demand for arbitration. On February 2, 2015, plaintiff filed an amended demand that removed Mr. Gregoire as a defendant from the matter and on February 4, 2015 the Company filed its amended answer. The parties selected an arbitrator and arbitration took place in June 2015 in Charlotte, North Carolina.

On September 28, 2015, the arbitrator issued a final award in favor of Mr. Barranco with respect to two alleged breaches of contract and implied covenants arising out of the contract. The arbitrator found that the Company did not commit fraud or make any negligent misrepresentations to Mr. Barranco. Pursuant to the award, the Company is to pay approximately $11,282, which includes alleged actual damages of $7,254, fees and expenses of $2,318 and prejudgment interest of $1,710. The Company disagrees with the single arbitrator's findings and conclusions and believes the arbitrator's decision exceeds his authority and disregards the applicable law. As an initial response, the Company filed a motion for modification on September 30, 2015, based on mathematical errors in the computation of damages and fees. On October 16, 2015, the arbitrator issued an order denying the Company's motion and sua sponte issuing a modified final award in favor of Mr. Barranco in the same above-referenced amounts, but making certain substantive changes to the award, which changes the Company believes were improper and outside the scope of his authority and the AAA rules. The Company intends to pursue all available appellate options to challenge the award in federal court in the Western District of North Carolina, including by opposing any petition to confirm, which will likely be filed by Mr. Barranco, and simultaneously moving the court to vacate or reduce the award. Should that initial appeal be unsuccessful, the Company intends to appeal further to the United States Court of Appeals for the Fourth Circuit.

Notwithstanding the Company’s right to appeal, given the arbitrator’s decision, the Company recorded an $11,282 expense provision for this matter in the quarter ending September 30, 2015. The provision is subject to adjustment based on the ultimate outcome of the Company’s appeal. If it is ultimately determined that money is owed following the full appellate process in federal court, the Company intends to fund any amounts to be paid by it from cash on hand.

With regard to Barranco II, the Hawai’i district court, on March 17, 2014, denied the Company’s motion to dismiss and its motion to transfer venue to South Carolina. However, the Hawai’i court did dismiss Count II in plaintiff’s complaint alleging breach of the employment agreement. The Company filed an answer to the complaint in the Hawai’i district court on March 31, 2014, and the parties have since exchanged discovery. On November 19, 2014, the Company filed a motion for summary judgment on all claims which was heard on January 20, 2015. On January 30, 2015, the Company’s motion for summary judgment was granted in part and denied in part. The claims against defendants Reichental and Gregoire were dismissed and these defendants were dismissed from the case. The case is ongoing as to the remaining narrow contractual claims in the Hawai’i district court. Trial was initially scheduled for April 2015, but was rescheduled by the Judge for January 12, 2016. The Company believes the claims alleged in the lawsuit are without merit and intends to defend itself vigorously.

The Company is involved in various other legal matters incidental to its business. Although the Company cannot predict the results of litigation with certainty, the Company believes that the disposition of these legal matters will not have a material adverse effect on its consolidated results of operations or consolidated financial position.

Indemnification

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

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

(15) Accumulated Other Comprehensive Income (Loss)

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

| (in thousands) | Foreign currency translation adjustment | Defined benefit pension plan | Total |
|---|---|---|---|
| Balance at December 31, 2014 | $ (22,195) | $ (2,211) | $ (24,406) |
| Other comprehensive income | (15,315) | 276 | (15,039) |
| Balance at September 30, 2015 | $ (37,510) | $ (1,935) | $ (39,445) |

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

(16) Noncontrolling Interests

As of September 30, 2015, the Company owned approximately 95% of the capital and voting rights of Phenix Systems, a global provider of direct metal 3D printers. Phenix Systems was acquired on July 15, 2013.

As of September 30, 2015, the Company owned approximately 70% of the capital and voting rights of Robtec, a service bureau and distributor of 3D printing and scanning products. Robtec was acquired on November 25, 2014.

As of September 30, 2015, the Company owned approximately 65% of the capital and voting rights of Easyway, a service bureau and distributor of 3D printing and scanning products in China. Easyway was acquired on April 2, 2015.

(17) Subsequent Events

On October 28, 2015, Avi N. Reichental stepped down as President and Chief Executive Officer and as a Director of the Company, effective at the close of business on October 28, 2015, by mutual agreement with the Company's Board of Directors (the "Board"). Pursuant to the Company's Amended and Restated By-Laws, effective upon Mr. Reichental's resignation as a member of the Board, the Board decreased the size of the Board from 10 to 9 directors.

On October 28, 2015, Andrew M. Johnson was appointed as the Company's President and Chief Executive Officer on an interim basis (the "Interim President and Chief Executive Officer") and will serve as the Company's principal executive officer, effective upon Mr. Reichental's departure on October 28, 2015. Mr. Johnson will also continue to serve as the Company's Chief Legal Officer and Secretary. The Board also established an Executive Management Committee to provide ongoing leadership and to support companywide operations and strategic initiatives while it conducts a search for a permanent replacement of Mr. Reichental. The committee consists of Mr. Johnson, Mark Wright, David Styka and Charles Hull. Mr. Wright serves as our Chief Operating Officer, Mr. Styka serves as our Chief Financial Officer and Mr. Hull is our Co-founder, Director, Chief Technology Officer and Chairman of the Executive Management Committee.

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

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

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

### Business Overview

3D Systems Corporation and its subsidiaries (collectively, "we", "our" and "us") provide advanced and comprehensive 3D digital design and fabrication solutions, including 3D printers, print materials and cloud-sourced custom parts. Our ecosystem empowers professionals and consumers to bring their ideas to life using our vast material selection, including plastics, metals, ceramics and edibles. Our personalized medicine capabilities include end-to-end simulation, training and planning, and printing of surgical instruments and devices for personalized surgery and patient specific medical and dental devices. Our 3D digital design, fabrication and inspection products provide seamless interoperability and incorporate immersive computing technologies. We believe our products and services disrupt and compliment traditional methods, deliver improved results and empower our customers to manufacture the future now.

Recent Developments

In July, we expanded our PlasticJet printing (“PJP”) materials to include InfinityTM Rinse-Away water-soluble support material for our Cube® and CubePro® desktop 3D printers. This material dissolves in water, enabling complex 3D prints with articulation, suspension and movement.

In August, we expanded our PJP materials to include a new Nylon material for our CubePro® 3D printers. This engineering-grade performance material was developed to bring strength, flexibility and durability to desktop production of functional parts for design, testing and small-scale manufacturing.

In August, we announced the availability of the latest version of GibbsCAM®, our software for production machining. This comprehensive update incorporates an all-new Universal Kinematic Machine engine that further simplifies CNC programming. The release also includes multiple enhancements that extend capabilities and accommodate new machines of all configurations.

In September, we announced the availability of FabricateTM, a fashion application that supports textile design and pattern-making with 3D printing using our Cube® desktop 3D printer. Fabricate is an application that brings customization through matching and mixing colorful filaments with fabrics for both the professional and home users. Our .textile files are printed in different patterns and shapes on special fabric that can be sewn onto clothing and accessories for a customized look.

In October, Avi N. Reichental stepped down as our President and Chief Executive Officer and as a Director, effective at the close of business on October 28, 2015, by mutual agreement with the Board of Directors.  Andrew M. Johnson was appointed as our President and Chief Executive Officer on an interim basis and will serve as our principal executive officer, effective upon Mr. Reichental's departure on October 28, 2015. Mr. Johnson will also continue to serve as our Chief Legal Officer and Secretary. The Board of Directors has also established an Executive Management Committee to provide ongoing leadership and to support our companywide operations and strategic initiatives while it conducts a search for a permanent replacement of Mr. Reichental. This committee consists of Mr. Johnson, Mark Wright, David Styka and Charles Hull. Mr. Wright serves as our Chief Operating Officer, Mr. Styka serves as our Chief Financial Officer and Mr. Hull is our Co-founder, Director, Chief Technology Officer and Chairman of the Executive Management Committee.

Summary of 2015 financial results

We earn revenues from the sale of products, materials and services. Total consolidated revenue for the quarter ended September 30, 2015 decreased by 9.2%, or $15.4 million, to $151.6 million, compared to $166.9 million for the quarter ended September 30, 2014. These results primarily reflect a decrease in products revenue, partially offset by growth in services revenue.

Products revenue for the quarter ended September 30, 2015 decreased 27.4%, or $20.0 million, to $52.9 million, compared to $72.9 million for the quarter ended September 30, 2014. These results are primarily driven by a lower sales of 3D printers coupled with an unfavorable impact of foreign currency translation.

Materials revenue for the quarter ended September 30, 2015 decreased by 10.7%, or $4.2 million, to $34.8 million, compared to $39.0 million for the quarter ended September 30, 2014. These results were primarily driven by lower design and manufacturing printer sales during the quarter coupled with an unfavorable impact of foreign currency translation.

Services revenue for the quarter ended September 30, 2015 increased by 16.0%, or $8.8 million, to $63.8 million, compared to $55.0 million for the quarter ended September 30, 2014. These results are primarily driven by expanded healthcare and software services.

As of September 30, 2015, our backlog was $40.5 million, compared to backlog of $46.5 million at December 31, 2014 and $46.0 million at September 30, 2014. Production and delivery of our printers is generally not characterized by long lead times; backlog is more dependent on timing of customers' requested deliveries. In addition, Quickparts services lead time and backlog depends on whether orders are for rapid prototyping or longer-range production runs. As of September 30, 2015 and December 31, 2014, backlog included $12.9 million of Quickparts services orders, compared to $11.5 million at September 30, 2014.

We calculate organically generated revenue by comparing this year's total revenue for the period, excluding the revenue recognized from all acquired businesses that we have owned for less than 12 months, to last year's total revenue for the period. Once we have owned a business for one year, the revenue is included in organically generated revenue. For the quarter and nine months ended September 30, 2015, organically generated revenue decreased 22.1% and 12.0%, respectively, compared to an increase in organically generated revenue of 12.2% and 16.0%, respectively, for the quarter and nine months ended September 30, 2014.

Healthcare revenue includes sales of products, materials, and services for health-related applications, including simulation, training and planning, and printing of surgical instruments and medical and dental devices. For the quarter ended September 30, 2015, healthcare revenue decreased by 7.6%, to $34.5 million, and made up 22.8% of total revenue, compared to $37.4 million, or 22.4% of total revenue for the quarter ended September 30, 2014. These results reflect lower 3D printer sales, partially offset by higher sales of simulators and services. For the nine months ended September 30, 2015, healthcare revenue increased by 14.8%, to $99.3 million, and made up 20.6% of total revenue, compared to $86.5 million, or 18.6% of total revenue, for the nine months ended September 30, 2014. These results primarily reflect our increased expansion of healthcare related applications.

Consumer revenue includes sales of our desktop Cube® series 3D printers and their related print materials, Sense 3D scanners and other products and services related to consumer products and retail channels. For the quarter ended September 30, 2015, consumer revenue decreased by 14.1%, to $10.1 million, and made up 6.7% of total revenue, compared to $11.8 million, or 7.1% of total revenue, for the quarter ended September 30, 2014. For the nine months ended September 30, 2015, consumer revenue increased 22.8%, to $35.4 million and made up 7.3% of total revenue, compared to $28.8 million, or 6.2% of total revenue, for the nine months ended September 30, 2014.

Gross profit for the quarter ended September 30, 2015 decreased by 11.0%, or $8.8 million, to $71.0 million, compared to $79.8 million for the quarter ended September 30, 2014, reflecting higher revenue from services, offset by a decrease in products and materials revenue.

Gross profit margin for the quarter ended September 30, 2015 was 46.9%, compared to 47.8% for the quarter ended September 30, 2014, reflecting a decrease in products margins, partially offset by higher materials and services margins.

Operating expenses increased by 47.6%, to $105.7 million, compared to $71.6 million for the quarter ended September 30, 2014. These results reflect higher selling, general and administrative expenses primarily due to the recognition of an $11.3 million arbitration award, costs related to acquisitions, including amortization expense and higher compensation and travel expenses, in addition to higher research and development expenses related to our portfolio expansion and development of new products.

Our operating loss for the quarter ended September 30, 2015 was $34.6 million, compared to operating income of $8.2 million for the quarter ended September 30, 2014, reflecting lower gross profit and higher operating expenses as described in more detail below.

Our operating activities for the nine months ended September 30, 2015 used $10.6 million of cash, which is described in further detail below. We used $114.3 million to fund our strategic investing activities for the nine months ended September 30, 2015, including acquisition costs. Financing activities for the nine months ended September 30, 2015 generated $0.4 million of cash. In total, our unrestricted cash balance at September 30, 2015 was $157.5 million, compared to $284.9 million at December 31, 2014.

Results of Operations – Quarter Comparison

Third quarter comparison of revenue by class of product and service

Table 1 below sets forth revenue and percentage of revenue by class of product and service:

Table 1

| (Dollars in thousands) | Products | | | Materials | | | Services | | | Totals | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue – 3rd quarter 2014 | $ 72,917 | 43.7 | % | $ 39,009 | 23.4 | % | $ 55,018 | 32.9 | % | $ 166,944 | 100 | % |
| Change in revenue: | | | | | | | | | | | | |
| Volume | | | | | | | | | | | | |
| Core products and services | (6,502) | (8.9) | | 8,893 | 22.8 | | 17,876 | 32.5 | | 20,267 | 12.1 | |
| New products and services | (11,221) | (15.4) | | (10,276) | (26.3) | | (4,437) | (8.1) | | (25,934) | (15.5) | |
| Price/Mix | 1,886 | 2.6 | | (417) | (1.1) | | — | — | | 1,469 | 0.9 | |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Foreign currency translation | | (4,181) | (5.7) | | | (2,361) | (6.1) | | | (4,630) | (8.4) | | | (11,172) | (6.7) | |
| Net change | | (20,018) | (27.4) | | | (4,161) | (10.7) | | | 8,809 | 16.0 | | | (15,370) | (9.2) | |
| Revenue – 3rd quarter 2015 | $ | 52,899 | 34.9 | % | $ | 34,848 | 23.0 | % | $ | 63,827 | 42.1 | % | $ | 151,574 | 100 | % |

Total consolidated revenue decreased by 9.2%, primarily due to a decrease in products and materials volume, coupled with an unfavorable foreign currency impact.

The decrease in products revenue was primarily driven by lower sales of 3D printers.

The products category includes 3D printers, software products, perceptual and haptic devices, digitizers and healthcare simulators. For the quarter ended September 30, 2015, software revenue, including perceptual and haptic devices, contributed $10.4 million, compared to $5.1 million for the quarter ended September 30, 2014.

Due to the relatively high price of certain 3D printers and a corresponding lengthy selling cycle and relatively low unit volume of the higher priced professional printer sales in any particular period, a shift in the timing and concentration of orders and shipments from one period to another can affect reported revenue in any given period. Revenue reported in any particular period is also affected by timing of revenue recognition under rules prescribed by U.S. generally accepted accounting principles.

The decrease in materials revenue was primarily driven by softness in demand for printers and timing of sales of materials. For the quarter ended September 30, 2015, sales of integrated materials decreased by 3.0% to $27.3 million and represented 78.3% of total materials revenue, compared to 72.4% for the quarter ended September 30, 2014.

The increase in services revenue primarily reflects expanding sales and offerings of healthcare and software services. For the quarter ended September 30, 2015, services revenue from Quickparts decreased 2.6% to $31.5 million, compared to $32.3 for quarter ended September 30, 2014.  For the quarter ended September 30, 2015, software services contributed $8.9 million of revenue, compared to $3.7 million for the quarter ended September 30, 2014, primarily related to expanded software products through recent acquisitions.

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

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

Change in third quarter revenue by geographic region

Table 2 sets forth the change in revenue by geographic area for the third quarter of 2015 compared to the third quarter of 2014:

Table 2

| (Dollars in thousands) | Americas | | | EMEA | | | Asia Pacific | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue – 3rd quarter 2014 | $ 90,992 | 54.5 | % | $ 47,207 | 28.3 | % | $ 28,745 | 17.2 | % | $ 166,944 | 100 | % |
| Change in revenue: | | | | | | | | | | | | |
| Volume | (3,684) | (4.0) | | 4,419 | 9.4 | | (6,402) | (22.3) | | (5,667) | (3.4) | |
| Price/Mix | (5,043) | (5.5) | | 823 | 1.7 | | 5,689 | 19.8 | | 1,469 | 0.9 | |
| Foreign currency translation | (1,541) | (1.7) | | (7,414) | (15.7) | | (2,217) | (7.7) | | (11,172) | (6.7) | |
| Net change | (10,268) | (11.2) | | (2,172) | (4.6) | | (2,930) | (10.2) | | (15,370) | (9.2) | |
| Revenue – 3rd quarter 2015 | $ 80,724 | 53.3 | % | $ 45,035 | 29.7 | % | $ 25,815 | 17.0 | % | $ 151,574 | 100 | % |

The unfavorable impact on volume in the Americas and Asia Pacific region is primarily attributable to products volume, while the favorable impact on volume in EMEA is primarily attributable to services volume, which more than offset unfavorable products volume in that region.

The unfavorable impact of mix in the Americas is primarily attributable to products mix, while the favorable impact of mix in the EMEA and Asia Pacific region is primarily attributable to mix of products in those regions.

For the quarter ended September 30, 2015, revenue from operations outside the Americas decreased by 6.7% to $70.9 million, compared to $76.0 million for the quarter ended September 30, 2014.

For the quarter ended September 30, 2015, revenue from operations outside the U.S. as a percent of total revenue was 51.1% for the quarter ended September 30, 2015, compared to 45.5.% for the quarter ended September 30, 2014. Excluding the effect of foreign currency translation on revenues outside the U.S. would result in a decrease of 2.5% for the quarter ended September 30, 2015.

Gross profit and gross profit margins

Table 3 sets forth gross profit and gross profit margin for our products and services for the third quarter of 2015 and 2014:

Table 3

| | Quarter Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Change in Gross Profit | | Change in Gross Profit Margin | |
| (Dollars in thousands) | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | $ | % | Percentage Points | % |
| Products | $ 12,824 | 24.2 % | $ 25,769 | 35.3 % | $ (12,945) | (50.2)% | (11.1) | (31.4)% |
| Materials | 26,451 | 75.9 | 28,530 | 73.1 | (2,079) | (7.3) | 2.8 | 3.8 |
| Services | 31,763 | 49.8 | 25,499 | 46.3 | 6,264 | 24.6 | 3.5 | 7.6 |
| Total | $ 71,038 | 46.9 % | $ 79,798 | 47.8 % | $ (8,760) | (11.0)% | (0.9) | (1.9) % |

Total consolidated gross profit decreased, reflecting lower products and materials revenue coupled with lower products gross profit margins.

Gross profit margin for products decreased primarily due to the unfavorable impact of consumer products gross profit margins, which more than offset increased contributions from higher margin software and healthcare products.

Gross profit margin for materials increased, reflecting improved supply chain efficiencies in materials production.

Gross profit margin for services increased primarily due to the addition of higher margin healthcare and software services. Quickparts gross profit margin decreased to 43.8% for the quarter ended September 30, 2015, compared to 44.7% for the quarter ended September 30, 2014.

Operating expenses

Table 4 sets forth the components of operating expenses for the third quarter of 2015 and 2014:

Table 4

| | Quarter Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Change | |
| (Dollars in thousands) | Amount | % Revenue | Amount | % Revenue | $ | % |
| Selling, general and administrative expenses | $ 83,212 | 54.9 % | $ 53,656 | 32.1 % | $ 29,556 | 55.1 % |
| Research and development expenses | 22,463 | 14.8 | 17,934 | 10.7 | 4,529 | 25.3 |
| Total operating expenses | $ 105,675 | 69.7 % | $ 71,590 | 42.8 % | $ 34,085 | 47.6 % |

Total operating expenses increased, reflecting higher selling, general and administrative expenses and higher research and development expenses, as discussed below.

Selling, general and administrative expenses increased due primarily to an $11.3 million arbitration award expense related to an earnout in connection with an acquisition completed in 2011, a $10.6 million increase in compensation costs due to acquisitions and increased staffing, a $4.8 million increase in amortization, a $2.2 million increase in marketing expenses and a $0.6 million increase in consulting fees.

Research and development expenses increased primarily due to a $2.6 million increase in compensation expenses related to prior acquisitions and a $2.6 million increase in outside services associated with product development.

Income (loss) from operations

Table 5 sets forth operating income by geographic area for the third quarter of 2015 and 2014:

Table 5

| | Quarter Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2015 | 2014 |
| Income (loss) from operations | | |
| Americas | $ (38,736) | $ (767) |
| Germany | 3,092 | 1,299 |
| Other EMEA | (5,598) | 643 |
| Asia Pacific | 6,991 | 7,136 |
| Subtotal | (34,251) | 8,311 |
| Inter-segment elimination | (386) | (103) |
| Total | $ (34,637) | $ 8,208 |

With respect to the Americas, for the quarter ended September 30, 2015 and 2014, the changes in operating income by geographic area reflected the same factors relating to our consolidated operating income that are discussed above. See Gross profit and gross profit margins and Operating expenses above.

The changes in operating income in our operations outside the Americas for the quarter ended September 30, 2015 and 2014 resulted primarily from transfer pricing, changes in sales volume and foreign currency translation.

Interest and other expense, net

Table 6 sets forth the components of interest and other expense, net, for the third quarter of 2015 and 2014:

Table 6

| | Quarter Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2015 | 2014 |
| Interest and other expense, net: | | |
| Interest income | $ 120 | $ 107 |
| Foreign exchange gain (loss) | 126 | (1,740) |
| Interest expense | (554) | (239) |
| Other expense, net | (1,065) | (2,083) |
| Total interest and other expense, net | $ (1,373) | $ (3,955) |

Benefit and provision for income taxes

For the quarter ended September 30, 2015, we recorded a $3.5 million benefit for income taxes compared to a $1.1 million provision for the quarter ended September 30, 2014. The lower effective tax rate as compared to the third quarter of 2014 is primarily due to the mix and level of income between the US and foreign jurisdictions. Our 2015 and 2014 benefit and provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions.

Net income (loss)

Table 7 sets forth the primary components of net income attributable to 3D Systems for the third quarter of 2015 and 2014:

Table 7

Quarter Ended
September 30,

| (Dollars in thousands) | 2015 | 2014 | Change |
|---|---|---|---|
| Operating income (loss) | $ (34,637) | $ 8,208 | $ (42,845) |
| Less: | | | |
| Interest and other expense, net | 1,373 | 3,955 | (2,582) |
| Provision (benefit) for income taxes | (3,524) | 1,113 | (4,637) |
| Net income attributable to noncontrolling interests | (237) | 56 | (293) |
| Net income (loss) attributable to 3D Systems | $ (32,249) | $ 3,084 | $ (35,333) |
| | | | |
| Weighted average shares, basic and diluted | 112,010 | 110,737 | |
| Earnings (loss) per share, basic and diluted | $ (0.29) | $ 0.03 | |

Results of Operations – Nine Months Comparison

Nine months comparison of revenue by class of product and service

Table 8 below sets forth revenue and percentage of revenue by class of product and service:

Table 8

| (Dollars in thousands) | Products | | Materials | | Services | | Totals | |
|---|---|---|---|---|---|---|---|---|
| Revenue – nine months 2014 | $ 195,618 | 42.0 % | $ 117,486 | 25.2 % | $ 153,110 | 32.8 % | $ 466,214 | 100 % |
| Change in revenue: | | | | | | | | |
| Volume | | | | | | | | |
| Core products and services | 18,372 | 9.4 | 14,896 | 12.7 | 64,036 | 41.8 | 97,304 | 20.9 |
| New products and services | (17,738) | (9.1) | (29,171) | (24.8) | (12,414) | (8.1) | (59,323) | (12.7) |
| Price/Mix | 2,295 | 1.2 | 13,124 | 11.2 | — | — | 15,419 | 3.3 |
| Foreign currency translation | (14,757) | (7.5) | (7,979) | (6.8) | (14,078) | (9.2) | (36,814) | (7.9) |
| Net change | (11,828) | (6.0) | (9,130) | (7.7) | 37,544 | 24.5 | 16,586 | 3.6 |
| Revenue – nine months 2015 | $ 183,790 | 38.1 % | $ 108,356 | 22.4 % | $ 190,654 | 39.5 % | $ 482,800 | 100 % |

Total consolidated revenue increased 3.6%, primarily due to an increase in services revenue.

The decrease in products revenue was primarily driven by lower sales of 3D printers and an unfavorable foreign currency translation impact, which more than offset an increase in software products revenue.

The products category includes 3D printers, software products, perceptual and haptic devices, digitizers and healthcare simulators. For the nine months ended September 30, 2015, software revenue, including perceptual and haptic devices, contributed $32.0 million, compared to $15.6 million for the nine months ended September 30, 2014.

Due to the relatively high price of certain 3D printers and a corresponding lengthy selling cycle and relatively low unit volume of the higher priced professional printer sales in any particular period, a shift in the timing and concentration of orders and shipments from one period to another can affect reported revenue in any given period. Revenue reported in any particular period is also affected by timing of revenue recognition under rules prescribed by U.S. generally accepted accounting principles.

The decrease in materials revenue was primarily due to softness in demand for printers and timing of sales of materials. For the nine months ended September 30, 2015, sales of integrated materials increased to $84.1 million and represented 77.6% of total materials revenue, compared to 72.1% for the nine months ended September 30, 2014.

The increase in services revenue primarily reflects expanding sales and offerings of healthcare and software services. For the nine months ended September 30, 2015, services revenue from Quickparts increased 7.9% to $97.0 million, compared to $89.9 million for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, software services contributed $24.3 million of revenue, compared to $10.1 million for the nine months ended September 30, 2014.

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

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

Change in nine months revenue by geographic region

Table 9 sets forth the change in revenue by geographic area for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

Table 9

| (Dollars in thousands) | Americas | | EMEA | | Asia Pacific | | Total | |
|---|---|---|---|---|---|---|---|---|
| Revenue – nine months 2014 | $ 237,919 | 51.0 % | $ 136,786 | 29.3 % | $ 91,509 | 19.7 % | $ 466,214 | 100 % |
| Change in revenue: | | | | | | | | |
| Volume | 26,314 | 11.1 | 25,499 | 18.6 | (13,832) | (15.1) | 37,981 | 8.2 |
| Price/Mix | (3,739) | (1.6) | 11,267 | 8.2 | 7,891 | 8.6 | 15,419 | 3.3 |
| Foreign currency translation | (3,112) | (1.3) | (27,510) | (20.1) | (6,192) | (6.8) | (36,814) | (7.9) |
| Net change | 19,463 | 8.2 | 9,256 | 6.7 | (12,133) | (13.3) | 16,586 | 3.6 |
| Revenue – nine months 2015 | $ 257,382 | 53.3 % | $ 146,042 | 30.3 % | $ 79,376 | 16.4 % | $ 482,800 | 100 % |

The growth in the Americas and EMEA for the nine months ended September 30, 2015 was driven by an increase in services revenue, while continued macroeconomic weaknesses compressed revenue in the Asia Pacific region.

For the nine months ended September 30, 2015, revenue from operations outside the Americas decreased by 1.3%, to $225.4 million, compared to $228.3 million for the nine months ended September 30, 2014.

For the nine months ended September 30, 2015 revenue from operations outside the U.S. as a percent of total revenue was 50.5%, compared to 49.0% for the nine months ended September 30, 2014. Excluding the effect of foreign currency translation on revenues outside the U.S. would result in growth of 11.5% for the nine months ended September 30, 2015.

Gross profit and gross profit margins

Table 10 sets forth gross profit and gross profit margin for our products and services for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

Table 10

| | Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Change in Profit | | Change in Margin | |
| (Dollars in thousands) | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | $ | % | Percentage Points | % |
| Products | $ 53,531 | 29.1 % | $ 72,065 | 36.8 % | $ (18,534) | (25.7)% | (7.7) | (20.9)% |
| Materials | 82,183 | 75.8 | 85,364 | 72.7 | (3,181) | (3.7) | 3.1 | 4.3 |
| Services | 95,935 | 50.3 | 70,239 | 45.9 | 25,696 | 36.6 | 4.4 | 9.6 |
| Total | $ 231,649 | 48.0 % | $ 227,668 | 48.8 % | $ 3,981 | 1.7 % | (0.8) | (1.6) % |

Total consolidated gross profit increased, primarily driven by higher materials and services margins.

Gross profit margin for products decreased primarily due to lower sales of 3D printers, the negative impact of consumer products and higher than normal manufacturing variances attributable to the consolidation of production facilities, which more than offset increased contributions from higher margin software and healthcare products.

Gross profit margin for materials increased, reflecting a favorable mix of materials sold during the period and improved supply chain efficiencies in materials production.

Gross profit margin for services increased due to the addition of higher margin healthcare and software services and an increase in Quickparts gross profit margin. Quickparts gross profit margin increased to 44.5% for the nine months ended September 30, 2015, compared to 43.2% for the nine months ended September 30, 2014.

Operating expenses

Table 11 sets forth the components of operating expenses for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

Table 11

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Change | |
| (Dollars in thousands) | Amount | % Revenue | Amount | % Revenue | $ | % |
| Selling, general and administrative expenses | $ 237,242 | 49.1 % | $ 152,698 | 32.8 % | $ 84,544 | 55.4 % |
| Research and development expenses | 70,410 | 14.6 | 52,883 | 11.3 | 17,527 | 33.1 |
| Total operating expenses | $ 307,652 | 63.7 % | $ 205,581 | 44.1 % | $ 102,071 | 49.7 % |

Total operating expenses increased, reflecting higher selling, general and administrative expenses and higher research and development expenses, as discussed below.

Selling, general and administrative expenses increased due primarily to a $33.1 million increase in compensation costs due to acquisitions and increased staffing, a $19.3 million increase in amortization, an $11.3 million arbitration award expense related to an earnout in connection with an acquisition completed in 2011, a $4.5 million increase in marketing expenses, a $2.0 million increase in travel expenses and a $1.4 million increase in occupancy costs.

Research and development expenses increased primarily due to a $10.2 million increase in compensation costs related to acquisitions and increased staffing and a $6.4 million increase in outside services associated with product development.

Income (loss) from operations

Table 12 sets forth operating income by geographic area for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

Table 12

| | Nine Months Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2015 | 2014 |
| Income (loss) from operations | | |
| Americas | $ (91,028) | $ (9,833) |
| Germany | 4,384 | 1,947 |
| Other EMEA | (7,871) | 5,168 |
| Asia Pacific | 19,917 | 25,658 |
| Subtotal | (74,598) | 22,940 |
| Inter-segment elimination | (1,405) | (853) |
| Total | $ (76,003) | $ 22,087 |

With respect to the Americas, for the nine months ended September 30, 2015 and 2014, the changes in operating income by geographic area reflected the same factors relating to our consolidated operating income that are discussed above. See Gross profit and gross profit margins and Operating expenses above.

The changes in operating income in our operations outside the Americas for the nine months ended September 30, 2015 and 2014 resulted primarily from transfer pricing, changes in sales volume and foreign currency translation.

Interest and other expense, net

Table 13 sets forth the components of interest and other expense, net, for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

Table 13

| (Dollars in thousands) | Nine Months Ended September 30, 2015 | 2014 |
| --- | --- | --- |
| Interest and other expense, net: | | |
| Interest income | $ 362 | $ 360 |
| Foreign exchange loss | (1,641) | (3,085) |
| Interest expense | (1,487) | (1,043) |
| Other expense, net | (1,263) | (2,711) |
| Total interest and other expense, net | $ (4,029) | $ (6,479) |

Benefit and provision for income taxes

For the nine months ended September 30, 2015, we recorded a $20.6 million benefit for income taxes, compared to a $5.4 million provision for the nine months ended September 30, 2014. The lower effective tax rate as compared to the nine months ended September, 30 2014 is primarily due to the mix and level of income between the US and foreign jurisdictions. Our 2015 and 2014 benefit and provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions.

Net income (loss)

Table 14 sets forth the primary components of net income attributable to 3D Systems for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014:

Table 14

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | Change |
| Operating income (loss) | $ (76,003) | $ 22,087 | $ (98,090) |
| Less: | | | |
| Interest and other expense, net | 4,029 | 6,479 | (2,450) |
| Provision (benefit) for income taxes | (20,563) | 5,366 | (25,929) |
| Net income (loss) attributable to noncontrolling interests | (343) | 156 | (499) |
| Net income (loss) attributable to 3D Systems | $ (59,126) | $ 10,086 | $ (69,212) |
| | | | |
| Weighted average shares, basic and diluted | 111,920 | 106,923 | |
| Earnings (loss) per share, basic and diluted | $ (0.53) | $ 0.09 | |

Other Financial Information

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

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

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

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

· Non-cash stock-based compensation expenses. We exclude the tax-effected stock-based compensation expenses from operating expenses primarily because they are non-cash.

· Amortization of intangibles. We exclude the tax-effected amortization of intangible assets from our cost of sales and operating expenses. The increase in recent periods is primarily in connection with acquisitions of businesses.

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

· Non-cash interest expense. We exclude tax-effected non-cash interest expenses related to the costs associated with our senior convertible notes, from interest and other expenses, net.

· Loss on convertible notes. We exclude the tax-effected loss on conversion of convertible notes from interest and other expenses, net.

· Arbitration award. We exclude tax-effected expenses associated with litigation awards and settlements.

Reconciliation of GAAP Net Income to Non-GAAP Financial Measures

Table 15

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share amounts) | 2015 | 2014 | 2015 | 2014 |
| GAAP net income (loss) attributable to 3D Systems Corporation | $ (32,249) | $ 3,084 | $ (59,126) | 10,086 |
| Cost of sales adjustments: | | | | |
| Amortization of intangibles | 81 | 74 | 232 | 209 |
| Operating expense adjustments: | | | | |
| Amortization of intangibles | 15,762 | 11,032 | 47,608 | 28,301 |
| Acquisition and severance expenses | 689 | 1,441 | 5,865 | 4,836 |
| Non-cash stock-based compensation expense | 8,800 | 8,100 | 28,850 | 23,738 |
| Arbitration award | 11,282 | — | 11,282 | — |
| Interest and other expense adjustments: | | | | |
| Non-cash interest expense | | | | |