

Grow Lisa A
Form 4
March 02, 2010

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box
if no longer
subject to
Section 16.
Form 4 or
Form 5
obligations
may continue.
See Instruction
1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF
SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Grow Lisa A

(Last) (First) (Middle)

1221 WEST IDAHO

(Street)

BOISE, ID 83702

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading
Symbol
IDACORP INC [IDA]

3. Date of Earliest Transaction
(Month/Day/Year)
02/26/2010

4. If Amendment, Date Original
Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to
Issuer

(Check all applicable)

____ Director ____ 10% Owner
X Officer (give title below) ____ Other (specify below)

Sr. VP - Power Supply

6. Individual or Joint/Group Filing(Check
Applicable Line)
X Form filed by One Reporting Person
____ Form filed by More than One Reporting
Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock	02/26/2010		A	331 ⁽¹⁾ A	\$ 0 9,951	D	
Common Stock	02/26/2010		F	418 D	\$ 33.03 9,533	D	
Common Stock (Rest. Stock)	02/26/2010		A	4,663 A	\$ 0 14,196	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of
information contained in this form are not**

SEC 1474
(9-02)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficial Owned Following Reported Transaction (Instr. 6)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title Amount or Number of Shares	

Deposits

(13)	13	338	(338)		
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Accounts receivable

(13,008)	393	(12,615)	1,537	13	1,550
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Lease receivable

448	448	21	21		
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Inventories

(7,907)	(868)	(8,775)	(189)	(60)	(249)
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Prepaid expenses and other current assets

(4,207)	(18)	(4,225)	(2,908)	50	(2,858)
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Other assets

22	(90)	(68)	88	88	
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Accounts payable

4,211	700	4,911	(448)	35	(413)
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Accrued liabilities

(148)	255	107	(2,849)	(304)	(3,153)
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Customer deposits

1,157	1,157	48	48		
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Deferred revenue

763	182	945	(2,340)	(193)	(2,533)
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Other liabilities

(371)	(4)	(375)	(222)	(2)	(224)
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Net cash provided by (used in) operating activities

(5,808)	48	(5,760)	2,928	(340)	2,588
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Cash flows used in investing activities:

Purchases of property and equipment

(2,603)	87	(2,516)	(781)	(781)	
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Proceeds on disposition of property and equipment

727	727				
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Additions to license and patent costs

(372)	(372)	(417)	(417)		
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Software development costs

(598)	90	(508)	(737)	(737)	
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Net cash used in investing activities

(2,846)	177	(2,669)	(1,935)	(1,935)	
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Cash flows from financing activities:

Stock options, stock purchase plan and restricted stock proceeds

8,135	8,135	4,898	1	4,899	
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Repayment of long-term debt

(180)	(180)	(165)	(165)		
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Payments under obligation to former stockholders of 3D Systems S.A.

(585)	(585)	(852)	(852)		
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Payment of preferred stock dividends

(1,617)	(1,617)	(1,420)	(1,420)		
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Payment of accrued liquidated damages

(36)	(36)	(837)	(837)		
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Securities issuance costs

(211)	(211)	(428)	(428)		
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Explanation of Responses:

Payment to OptoForm minority stockholder						
	(49)		(49)			
Net cash provided by financing activities						
	5,717	(211)	5,506	1,147	1	1,148
Effect of exchange rate changes on cash						
	773	(27)	746	182	14	196
Net increase in cash and cash equivalents						
	(2,164)	(13)	(2,177)	2,322	(325)	1,997
Cash and cash equivalents, beginning of period						
	26,276	229	26,505	23,954	554	24,508
Cash and cash equivalents, end of period						
	\$ 24,112	\$ 216	\$ 24,328	\$ 26,276	\$ 229	\$ 26,505

The changes for the years ended December 31, 2004 and 2005 displayed in the table above are the result of the restatement adjustments previously described in this Note 3.

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3D Systems Corporation

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2006, 2005 and 2004

(in thousands, except per share data)

Note 4 Outsourcing of Assembly and Refurbishment Activities

Since 2004, the Company has outsourced its equipment assembly and refurbishment activities as well as the assembly of field service kits for sale by the Company to its customers to several selected design and engineering companies and suppliers. These suppliers also carry out quality control procedures on the Company's systems prior to their shipment to customers. As part of these activities, these suppliers have responsibility for procuring the components and sub-assemblies that are used in the Company's systems. The Company purchases finished systems from these suppliers pursuant to forecasts and customer orders that the Company supplies to them. While the outsource suppliers of the Company's systems have responsibility for the supply chain of the components for the systems they assemble, the components, parts and sub-assemblies that are used in the Company's systems are generally available from several potential suppliers.

The activities that the Company outsourced include assembly of its InVision® 3-D printing equipment, its SLA® systems, its SLS® systems and certain other equipment items, the refurbishment of certain used equipment systems and the assembly of field service kits for sale by the Company to its customers.

In connection with these activities, in 2004, the Company effected a reduction in its work force, primarily at its Grand Junction, Colorado facility. See Note 11.

The Company sells components of its raw materials inventory related to those systems to those third-party suppliers from time to time. Those sales made through December 31, 2006 have been recorded in the financial statements as a product financing arrangement under SFAS No. 49, Accounting for Product Financing Arrangements. Pursuant to SFAS No. 49, as of December 31, 2006 and December 31, 2005, the Company recorded a non-trade receivable of \$2,429 and \$1,051, respectively, classified in prepaid expenses and other current assets on the Consolidated Balance Sheets, reflecting the book value of the inventory sold to the assemblers for which the Company had not received payment. At December 31, 2006 and 2005, \$1,048 and \$417, respectively, remained in inventory with a corresponding amount included in accrued liabilities, representing the Company's non-contractual obligation to repurchase assembled systems and refurbished parts produced from such inventory.

Under these arrangements, the Company generally purchases assembled systems from the assemblers following the Company's receipt of an order from a customer or as needed from the assembler to repair a component or to service equipment. Under certain circumstances, the Company anticipates that it may purchase assembled systems from the assemblers prior to the receipt of an order from a customer. At December 31, 2006 and December 31, 2005, the Company had advanced \$698 and \$5,271, respectively, of progress payments to assemblers for systems forecasted to be required for resale to customers. These progress payments were recorded in prepaid expenses and other current assets in the Consolidated Balance Sheets.

Note 5 Inventories

Components of inventories, net at December 31, 2006 and 2005 are as follows:

	2006	2005 Restated
Raw materials	\$ 531	\$ 207
Inventory held by assemblers	1,048	417
Work in process		55
Finished goods	24,535	14,131
	\$ 26,114	\$ 14,810

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)****Note 6 Property and Equipment**

Property and equipment at December 31, 2006 and 2005 are summarized as follows:

	2006	2005 Restated	Useful Life (in years)
Land	\$	\$ 436	
Building	8,496	4,202	30
Machinery and equipment	25,640	21,574	3-5
Capitalized software ERP	2,975	29	5
Office furniture and equipment	3,428	3,022	5
Leasehold improvements	7,901	3,534	Life of Lease
Rental equipment	1,192	910	5
Construction in progress	43	3,785	N/A
Total property and equipment	\$ 49,675	\$ 37,492	
Less: Accumulated depreciation	(25,912)	(25,500)	
Total property and equipment, net of accumulated depreciation	\$ 23,763	\$ 11,992	

Depreciation expense for 2006, 2005 and 2004 was \$3,389, \$2,814, and \$3,401, respectively. 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. In the fourth quarter of 2005, the Company accelerated amortization of the leasehold improvements related to its Valencia facility as a result of its plan to substantially reduce use of or vacate the facility by September 30, 2006. Accordingly, such leasehold improvements were fully amortized as of September 30, 2006. Such accelerated amortization amounted to \$59 in 2006.

Building and leasehold improvements include capitalized costs for tenant improvements for the Rock Hill facility. See Note 23.

For the years ended December 31, 2006 and 2005, the Company recognized software amortization expense of \$445 and \$15, respectively, for enterprise resource planning (ERP) system capitalization costs.

The Company ceased operations at its Grand Junction, Colorado facility on April 28, 2006. The facility was listed for sale during the first quarter of 2006. Following the termination of a contract to sell the building entered into in November 2006, the Company agreed in April 2007 to sell the building for \$6,800, subject to customary closing conditions. During 2006, the Company received \$248 in proceeds from the sale of certain personal property associated

with this facility that was no longer required for the Company's operations. Following the closing of the Grand Junction facility, approximately \$3,454 of assets, net of accumulated depreciation, comprised primarily of \$3,018 net of accumulated depreciation of building and improvements and \$436 of land associated with the facility were reclassified on the Company's Consolidated Balance Sheet from long-term assets to current assets, where they have been recorded as assets held for sale. Following the closing of this facility, the Company ceased to record depreciation expense related to this facility, which amounted to \$570 per year. See Note 13.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)****Note 7 Intangible Assets****(a) Licenses and Patent Costs**

Licenses and patent costs at December 31, 2006 and 2005 are summarized as follows:

	2006	2005	Weighted average useful life (in years)
Licenses, at cost	\$ 2,337	\$ 2,333	fully amortized
Patent costs	18,771	18,226	7.9
	21,108	20,559	
Less: Accumulated amortization	(16,272)	(15,034)	
Net licenses and patent costs	\$ 4,836	\$ 5,525	

During 2006, 2005 and 2004, the Company capitalized \$506, \$372 and \$417, respectively, for costs incurred to acquire, develop and extend patents in the United States and various other countries. Amortization of such previously capitalized patent costs was \$1,195 in 2006, \$1,090 in 2005 and \$1,323 in 2004. The Company expects amortization expense with respect to previously capitalized patent costs to be \$614 in 2007, \$230 in 2008, \$177 in 2009, \$136 in 2010 and \$124 in 2011.

(b) Acquired Technology

Acquired technology at December 31, 2006 and 2005 is summarized as follows:

	2006	2005
Acquired technology	\$ 10,268	\$ 10,148
Less: Accumulated amortization	(9,320)	(7,683)
Net acquired technology	\$ 948	\$ 2,465

The remaining unamortized acquired technology was purchased in 2001 in connection with the DTM acquisition and assigned a useful life of six years, extending to 2007. In each of 2006, 2005 and 2004, the Company amortized \$1,517 of acquired technology. The Company expects amortization expense with respect to the remaining unamortized acquired technology to be \$948 in the year ending December 31, 2007, at which time these costs will be fully amortized.

(c) Other Intangible Assets

The Company had \$818 and \$587 of other net intangible assets as of December 31, 2006 and 2005, respectively. Amortization expense related to such intangible assets was \$429, \$505 and 715 for the years ended December 31, 2006, 2005 and 2004, respectively.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)****Note 8 Goodwill**

The following are the changes in the carrying amount of goodwill by geographic area and reporting units:

	U.S.	Europe	Asia-Pacific	Total
Balance at January 1, 2005 (Restated)	\$ 18,605	\$ 21,893	\$ 6,930	\$ 47,428
Effect of foreign currency exchange rates		(1,357)		(1,357)
Balance at December 31, 2005 (Restated)	18,605	20,536	6,930	46,071
Effect of foreign currency exchange rates		796		796
Balance at December 31, 2006	\$ 18,605	\$ 21,332	\$ 6,930	\$ 46,867

The effect of foreign currency exchange rates in the preceding table reflects the impact on goodwill amounts recorded in currencies other than the U.S. dollar on the financial statements of subsidiaries in these geographic areas resulting from the yearly effect of foreign currency translation between the applicable functional currency and the U.S. dollar. The remaining goodwill for Europe and the entire amount of goodwill for Asia-Pacific represent amounts allocated in U.S. dollars from the U.S. to those geographic areas for financial reporting purposes and is not subject to translation effects.

Note 9 Employee Benefits

The Company sponsors a Section 401(k) plan covering substantially all of its eligible U.S. employees. The Plan entitles eligible employees to make contributions to the Plan after meeting certain eligibility requirements. Contributions are limited to the maximum contribution allowances permitted under the Internal Revenue Code. The Company matches 50% of the employee contributions up to a maximum as set forth in the Plan. The Company may also make discretionary contributions to the Plan, which would be allocable to participants in accordance with the Plan. For the years ended December 31, 2006, 2005 and 2004, the Company expensed \$222, \$269 and \$268, respectively, for contributions to the 401(k) Plan.

Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)****Note 10 Accrued and Other Liabilities**

Accrued liabilities at December 31, 2006 and 2005 are as follows:

	2006	2005 Restated
Vendor accruals	\$ 3,868	\$ 1,073
Payroll and related taxes	2,782	2,636
Bonuses and commissions	1,531	2,460
Accrued foreign severance	309	417
Professional services	1,560	1,582
Royalties payable	544	579
Taxes payable	374	1,263
Current portion of defined benefit pension obligation	380	
Accrued interest	78	115
Abandoned property	71	103
Non-contractual obligation to repurchase assembled systems See Note 4	1,048	417
Accrued dividends on preferred stock		268
Accrued other	32	1403
	\$ 12,577	\$ 12,316

Other liabilities at December 31, 2006 and 2005 are summarized below.

	2006	2005 Restated
Defined benefit pension obligation. See Note 16	\$ 2,239	\$ 1,969
Other long-term liabilities	795	358
	\$ 3,034	\$ 2,327

Note 11 Severance and Other Restructuring Costs

Severance and other restructuring costs amounted to \$6,646, \$1,227 and \$605 in 2006, 2005 and 2004, respectively.

On November 3, 2005, the Company announced a plan to move its corporate headquarters, principal R&D activities and all other key corporate support functions into a new facility in Rock Hill, South Carolina. Early in 2006, the Company opened an interim facility in Rock Hill, began to hire employees to replace departing employees, replicated functions in Rock Hill that were previously being performed at the Company's Valencia and Grand Junction facilities and in February 2006 entered into a 15-year lease with the option to renew the lease for two additional five-year terms for the construction of the Company's new headquarters and research and development facility. See Note 23. The Company also began work on exiting and disposing of its Valencia and Grand Junction facilities. The Company took occupancy of its new headquarters building in November 2006 and vacated its temporary Rock Hill facility during that month.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

Severance and other restructuring costs in 2005 related primarily to costs incurred in connection with the Company's relocation to Rock Hill. These costs included \$778 of personnel, relocation and recruiting costs and \$449 of non-cash charges associated with accelerated amortization and asset impairments.

The severance and restructuring costs incurred in 2004 arose from the following activities:

\$364 of severance expenses were accrued in connection with the outsourcing of the Company's equipment assembly activities in Grand Junction, Colorado, a personnel realignment in Europe and certain other personnel changes in the U.S. The Company expended \$156 of these severance expenses through December 31, 2004 and expended the remainder in 2005.

\$241 of exit costs related to the Company's office in Austin, Texas were accrued in order to fully provide for its estimated remaining exit costs. The lease for this facility expired at December 31, 2006.

All costs incurred in connection with these restructuring activities were either expensed as incurred and included as severance and other restructuring costs in the accompanying Consolidated Statements of Operations or included at December 31, 2006 on the Company's Consolidated Balance Sheet. At December 31, 2005, the Company reclassified \$208 of severance costs associated with the closure of the Austin facility to Austin closure costs. During 2006, the Company expended \$237 and accrued an additional \$30 for the Austin facility closure.

	Balance December 31, 2004 Restated	2005 Charges	2005 Utilization	Balance December 31, 2005 Restated	2006 Charges	2006 Utilization	Balance December 31, 2006
Austin closure costs	\$ 252	\$ 208	\$ (223)	\$ 237	\$ 30	\$ (237)	\$ 30
Severance costs	208	(208)			206	(206)	
Restructuring costs		1,227	(1,047)	180	6,410	(6,590)	
Total severance and other restructuring costs	\$ 460	\$ 1,227	\$ (1,270)	\$ 417	\$ 6,646	\$ (7,033)	\$ 30

Note 12 Financial Instruments

Generally accepted accounting principles require the Company to disclose its estimate of the fair value of material financial instruments, including those recorded as assets or liabilities in its Consolidated Financial Statements. The carrying amounts of current assets and liabilities approximate fair value due to their short-term maturities. The fair value of the Company's 6% convertible subordinated debentures in 2006 and 2005 and Series B Convertible Preferred

Stock in 2005 were derived for the periods they were outstanding by evaluating the nature and terms of each instrument and considering prevailing economic and market conditions. Such estimates are subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could significantly affect the Company's estimates.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2006 and 2005 were as follows:

	2006		2005 Restated	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Bank credit facility	\$ 8,200	\$ 8,200		
Industrial development bonds	3,545	3,545	3,745	3,745
6% convertible subordinated debentures	15,354	23,479	22,604	36,222
Capitalized lease obligations	9,012	9,012		
Total debt	\$ 36,111	\$ 44,236	\$ 26,349	\$ 39,967
Series B Convertible Preferred Stock	\$	\$	\$ 15,242	\$ 54,562

The fair values of the fixed-rate convertible debentures in the table above differ from the amounts reflected on the balance sheet based on the difference between the mandatory redemption value per share and the market value per share. Generally, the fair value of a fixed-rate instrument will increase as interest rates fall and decrease as interest rates rise. The decrease in estimated fair value of these debentures during 2006 was predominantly the result of the conversion of \$7,250 of these debentures into Common Stock during 2006. The interest rate used to discount the contractual payments associated with the debentures was 13% for both 2006 and 2005. No adjustment has been made to reflect fair value of the industrial development bonds due to the floating-rate nature of those bonds, interest on which varies monthly. The fair value of the amounts outstanding under the Bank credit facility and the capitalized lease obligations approximate their carrying amount at December 31, 2006 due to, in the case of bank loans, their floating-rate nature and, in the case of the capitalized lease obligations, the recording of those obligations during the latter part of 2006. The carrying value of the Series B Convertible Preferred Stock at December 31, 2005 in the table above was reflected in the Consolidated Balance Sheets at its mandatory redemption value of \$6.00 per share, net of unaccreted issuance costs. None of that preferred stock was outstanding at December 31, 2006. See Notes 13 and 14.

Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)****Note 13 Borrowings**

Total outstanding borrowings at December 31, 2006 and 2005 were as follows:

	2006	2005 Restated
Bank credit facility	\$ 8,200	\$
Current portion of long-term debt:		
Industrial development bonds	3,545	200
Total current portion of long-term debt	\$ 11,745	\$ 200
Long-term debt, less current portion:		
6% convertible subordinated debentures	\$ 15,354	\$ 22,604
Industrial development bonds		3,545
Total long-term debt, less current portion	15,354	26,149
Total debt	\$ 27,099	\$ 26,349

Annual maturities of long-term debt at December 31, 2006 are as follows:

2007	\$ 11,745(1)
2008	
2009	
2010	
2011	
Later years	15,354
Total	\$ 27,099

(1) Includes \$3,345 of industrial development bonds reclassified from long-term to current in anticipation of their redemption.

Silicon Valley Bank loan and security agreement

The Company maintains a loan and security agreement with Silicon Valley Bank that, as amended, is scheduled to expire on July 1, 2007. This credit facility provides that the Company and certain of its subsidiaries may borrow up to \$15,000 of revolving loans and includes sub-limits for letter of credit and foreign exchange facilities. The credit facility is secured by a first lien in favor of Silicon Valley Bank on certain of the Company's assets, including domestic accounts receivable, inventory and certain fixed assets. Interest accrues on outstanding borrowings at either the Bank's prime rate in effect from time to time or at a LIBOR rate plus a borrowing margin, which prior to January 12, 2007 was 2.25% for LIBOR loans. Effective January 12, 2007, borrowing margins for prime-rate loans became 50 basis points for such loans up to \$10,000 aggregate principal amount and 100 basis points for such loans in excess of that amount, and borrowing margins for LIBOR-rate loans became 275 basis points for such loans up to \$10,000 aggregate principal amount and 325 basis points for such loans in excess of that amount. The Company is obligated to pay, on a quarterly basis, a commitment fee equal to 0.375% per annum of the unused amount of the facility.

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3D Systems Corporation

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2006, 2005 and 2004

(in thousands, except per share data)

The facility, as amended, imposes certain limitations on the Company's activities, including limitations on the incurrence of debt and other liens, limitations on the disposition of assets, limitations on the making of certain investments and limitations on the payment of dividends on the Company's Common Stock. The facility also requires the Company comply with certain financial covenants, including (a) a quick ratio (as defined in the credit facility) of at least 1.00 to 1.00 as of the end of each calendar quarter and (b) a ratio of total liabilities less subordinated debt to tangible net worth (as each such term is defined in the credit facility) of not more than 2.00 to 1.00 as of December 31, 2006 and at the end of each calendar quarter thereafter. The credit facility also requires that the Company maintain, on a trailing four-quarter basis, EBITDA (as defined in the credit facility) in an amount not less than \$18,000 for certain periods ending on or before December 31, 2005 and not less than \$15,000 for each test period ended on or after March 31, 2006.

Under the terms of an amendment to the loan and security agreement that became effective on January 12, 2007, among other things, certain of the financial covenants were agreed to be modified for periods ending after September 30, 2006, and the parties agreed that borrowings under that agreement in excess of \$10,000 would be subject to a borrowing base tied to the Company's accounts receivable. The facility, as amended, also requires the Company to comply with certain financial covenants as of December 31, 2006, including a modified quick ratio (as defined in the credit facility) of at least 0.80 to 1.00 as of December 31, 2006, 0.95 to 1.00 as of March 31, 2007 and 1.00 to 1.00 as of June 30, 2007 and the last day of each calendar quarter thereafter. The facility, as amended, also requires a modified minimum EBITDA (as defined in the credit facility) of not less than \$3,000, \$1,000 and \$2,500 for the calendar quarters ending December 31, 2006, March 31, 2007 and June 30, 2007, respectively. For each twelve-month period on and after September 30, 2007, the minimum EBITDA is \$15,000.

At December 31, 2006, the Company had \$8,200 of revolving borrowings outstanding under this facility, which are to be repaid at or prior to the expiration of the facility on July 1, 2007. No borrowings were outstanding at December 31, 2005. At December 31, 2006 and 2005, respectively, the Company had \$536 and \$1,659 of foreign exchange forward contracts outstanding with Silicon Valley Bank.

While the Company was not in compliance with the applicable financial covenants at December 31, 2005, as restated, the Bank agreed to waive its non-compliance with the applicable financial covenants at that date.

Effective April 26, 2007, the Company and the Bank entered into a further amendment to the loan and security agreement under which, among other things, the quick ratio that the Company is required to comply with was amended for periods commencing as of January 1, 2007 and continuing through July 1, 2007 to provide that the modified quick ratio (as defined in the credit facility) for such period be at least 0.70 to 1.00. In addition, in that further amendment the parties agreed that all borrowings under the credit agreement would be subject to a borrowing base tied to the Company's accounts receivable and that the borrowing margin for all prime-rate loans would be 100 basis points for such loans and for all LIBOR-rate loans would be 325 basis points for such loans, each in excess of the applicable prime rate or LIBOR rate. The Bank also agreed at that time to waive the Company's non-compliance with the financial covenants set forth in the credit agreement as of December 31, 2006 in consideration of the Company's payment of a \$20 non-refundable waiver fee.

Industrial development bonds

The Company's Grand Junction, Colorado facility was financed by industrial development bonds in the original aggregate principal amount of \$4,900. At December 31, 2006, the outstanding principal amount of these bonds was \$3,545. Interest on the bonds accrues at a variable rate of interest and is payable monthly. The interest rate at December 31, 2006 was 4.01%. Principal payments are due in semi-annual installments

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3D Systems Corporation

Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2006, 2005 and 2004

(in thousands, except per share data)

through August 2016. The Company has made all scheduled payments of principal and interest on these bonds. The bonds are collateralized by, among other things, a first mortgage on the facility, a security interest in certain equipment and an irrevocable letter of credit issued by Wells Fargo Bank, N.A. pursuant to the terms of a reimbursement agreement between the Company and Wells Fargo. The Company is required to pay an annual letter of credit fee equal to 1% of the stated amount of the letter of credit.

This letter of credit is in turn collateralized by \$1,200 of restricted cash that Wells Fargo holds, which the Company reclassified as a short-term asset during 2006 in anticipation of the Company's sale of the Grand Junction facility. Wells Fargo has a security interest in that restricted cash as partial security for the performance of the Company's obligations under the reimbursement agreement. The Company has the right, which the Company has not exercised, to substitute a standby letter of credit issued by a bank acceptable to Wells Fargo as collateral in place of the funds held by Wells Fargo.

The reimbursement agreement, as amended, contains financial covenants that require, among other things, that the Company maintain a minimum tangible net worth (as defined in the reimbursement agreement) of \$23,000 plus 50% of net income from July 1, 2001 forward and a fixed-charge coverage ratio (as defined in the reimbursement agreement) of no less than 1.25 to 1.00. The Company is required to demonstrate the Company's compliance with these financial covenants as of the end of each calendar quarter. On April 17, 2007, Wells Fargo agreed to waive the Company's non-compliance with the fixed-charge coverage ratio as of December 31, 2006. As of December 31, 2005, the Company was in compliance with these financial covenants.

As discussed above, the Company ceased operations at its Grand Junction facility at the end of April 2006. The facility is currently listed for sale. Following the termination by a prospective buyer of a contract to purchase the facility entered into in November 2006, the Company agreed in April 2007 to sell the facility for \$6,800, subject to the satisfaction of certain customary conditions. The Company expects the closing of this transaction to occur in 2007. At that time, the Company expects to pay off the industrial development bonds. Following cessation of operations at the Grand Junction facility, the Company reclassified these bonds from long-term debt to current installments of long-term debt. Once the Company's obligations under these bonds have been satisfied, the Company expects the restricted cash referred to above to be released to the Company.

As a result of the proposed closing and anticipated disposition of the Grand Junction facility, discussed above, the following assets and liabilities were reclassified from long-term to current assets or liabilities, as the case may be, on the balance sheet during 2006, and at December 31, 2006 they amounted to:

Current assets:	
Assets held for sale	\$ 3,454
Restricted cash	\$ 1,200

Current liabilities:

Industrial development bonds	\$ 3,545
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Such restricted cash is held on deposit as partial security for the Company's obligations under the industrial revenue bonds discussed above, and therefore is not available to the Company for its general use.

6% convertible subordinated debentures

The 6% convertible subordinated debentures bear interest at the rate of 6% per year payable semi-annually in arrears in cash on May 31 and November 30 of each year. They are convertible into shares of Common Stock

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at the option of the holders at any time prior to maturity at \$10.18 per share, subject to anti-dilution adjustments.

In 2006, \$7,250 aggregate principal amount of these debentures were converted by their holders into 712 shares of Common Stock. After giving effect to all conversions made prior to December 31, 2006, \$15,354 aggregate principal amount of these debentures remained outstanding, and they are currently convertible into an aggregate 1.508 million shares of Common Stock.

The Company currently has the right to redeem these debentures, in whole or in part at any time, at a price equal to 100% of the then outstanding principal amount of the debentures being redeemed, together with all accrued and unpaid interest and other amounts due in respect of the debentures. If the Company undergoes a change in control (as defined in the Debenture Purchase Agreements), the holders may require the Company to redeem the debentures at 100% of their then outstanding principal amount, together with all accrued and unpaid interest and other amounts due in respect of the debentures.

The debentures are subordinated in right of payment to senior indebtedness (as defined in the Debenture Purchase Agreements).

Note 14 Redeemable Preferred Stock

As of June 8, 2006, all of the Company's then outstanding Series B Convertible Preferred Stock had been converted by its holders into 2,640 shares of Common Stock, including 23 shares of Common Stock covering accrued and unpaid dividends to June 8, 2006. During 2006, 2005 and 2004, respectively, the Company recognized \$1,414, \$1,679 and \$1,534 of dividends. Dividends recognized in 2006 included \$1,003 of non-cash deemed dividends associated with the related offering costs that remained unaccrued as of June 8, 2006 and accrued dividends to June 8, 2006.

Following the full conversion of the Series B Convertible Preferred Stock in June 2006, the Company filed a Certificate of Elimination with the Delaware Secretary of State that had the effect of eliminating this series of preferred stock from its Certificate of Incorporation, as amended.

Note 15 Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, that establishes standards for accounting for transactions in which the Company exchanges its equity instruments for employee services based on the fair value of those equity instruments. Prior to the adoption of SFAS No. 123(R) *Share-Based Payment*, stock option grants were accounted for in accordance with APB Opinion No. 25 (*APB No. 25*) *Accounting for Stock Issued to Employees*, and the Company adhered to the pro forma disclosure provisions of SFAS No. 123. Prior to January 1, 2006, the value of restricted stock awards, based on market prices, was expensed by the Company over the restriction period, and no compensation expense was recognized for stock option grants as all such grants had an exercise price consistent with fair market value on the date of grant.

Effective May 19, 2004, the Company adopted its 2004 Incentive Stock Plan (the "2004 Stock Plan") and its 2004 Restricted Stock Plan for Non-Employee Directors (the "2004 Director Plan"). Effective upon the adoption of these Plans, all of the Company's previous stock option plans, except for the Company's 1998 Employee Stock Purchase Plan discussed below, terminated except with respect to options outstanding under those plans. As of December 31, 2006 and 2005, the aggregate number of shares of Common Stock underlying outstanding options issued under all previous stock option plans was 1,356 and 1,688, respectively, at an

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Notes to Consolidated Financial Statements (Continued)

Years Ended December 31, 2006, 2005 and 2004

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average exercise price per share of \$9.16 and \$9.39, respectively, with expiration dates through December 26, 2013.

A maximum of 1,000 shares of Common Stock are reserved for issuance under the 2004 Stock Plan, subject to adjustment in accordance with the terms of the 2004 Stock Plan. Total awards issued under this plan, net of repurchases, amounted to 121 shares of restricted stock in 2006, 99 shares of restricted stock in 2005 and 5 shares of restricted stock in 2004. The Company estimated the future value associated with awards granted in 2006, 2005 and 2004 as \$2,833, \$1,901 and \$52, respectively, which is calculated based on the fair market value of the Common Stock on the date of grant less the amount paid by the recipient and is expensed over the vesting period of each award. The compensation expense recognized in 2006, 2005 and 2004 was \$1,387, \$485 and \$7, respectively. Each of these awards was made with a vesting period of three years from the date of grant and required the recipient to pay \$1.00 for each share awarded.

The purpose of this Plan is to provide an incentive that permits the persons responsible for the Company's growth to share directly in that growth and to further the identity of their interests with the interests of the Company's stockholders. Any person who is an employee of or consultant to the Company, or a subsidiary or an affiliate of the Company, is eligible to be considered for the grant of restricted stock awards, stock options or performance awards pursuant to the 2004 Stock Plan. The 2004 Stock Plan is administered by the Compensation Committee of the Board of Directors, which, pursuant to the provisions of the 2004 Stock Plan, has the sole 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. The 2004 Stock Plan may be amended, altered or discontinued at the sole discretion of the Board of Directors at any time.

The 2004 Director Plan provides for the grant of up to 200 shares of Common Stock to non-employee directors (as defined in the Plan) of the Company, subject to adjustment in accordance with the terms of the Plan. The purpose of this Plan is to attract, retain and motivate non-employee directors of exceptional ability and to promote the common interests of directors and stockholders in enhancing the value of the Company's Common Stock. Each non-employee director of the Company is eligible to participate in this Plan upon their election to the Board of Directors. The Plan provides for initial grants of 1 shares of Common Stock to each newly elected non-employee director, annual grants of 3 shares of Common Stock as of the close of business on the date of each annual meeting of stockholders, and interim grants of 3 shares of Common Stock, or a pro rata portion thereof, to non-employee directors elected at meetings other than the annual meeting. The issue price of Common Stock awarded under this Plan is equal to the par value per share of the Common Stock. The Company accounts for the fair value of awards of Common Stock made under this Plan, net of the issue price, as director compensation expense in the period in which the award is made. During the years ended December 31, 2006, 2005 and 2004, the Company recorded \$372, \$350 and \$207, respectively, as director compensation expense in connection with awards of 18 shares in each of 2006 and 2005 and 17 shares in 2004 of Common Stock made to the non-employee directors of the Company pursuant to this Plan.

As of December 31, 2006, 147 and 774 shares of Common Stock were available for future grants under the 2004 Director Plan and the 2004 Stock Plan, respectively.

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The status of the Company's stock options is summarized below:

	2006		2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	(shares and options in thousands)					
Outstanding at beginning of year	1,688	\$ 9.39	2,533	\$ 10.43	3,264	\$ 9.76
Granted					40	13.57
Exercised	(287)	9.04	(672)	11.90	(672)	7.15
Lapsed or canceled	(45)	18.74	(173)	14.72	(99)	11.85
Outstanding at end of year	1,356	9.16	1,688	9.39	2,533	10.43
Options exercisable at end of year	1,231		1,387		1,777	
Shares available for future option grants	774		896		995	
Weighted average fair value of options granted during the year	\$		\$		\$ 7.35	

The following table summarizes information about stock options outstanding at December 31, 2006:

Range:	Options Outstanding			Options Exercisable	
	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	Outstanding	(Years)	Price	Outstanding	Price
	(options in thousands)				
\$5.00 to \$9.99	975	5.75	\$ 7.42	850	\$ 7.35
\$10.00 to \$14.99	226	4.76	12.08	226	12.08
\$15.00 to \$19.99	155	4.39	15.86	155	15.86

1,356	5.43	\$	9.16	1,231	\$	9.29
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The intrinsic value of the Company's outstanding 1,356 stock options amounted to \$9,272 at December 31, 2006.

Until December 31, 2005, when it terminated, the Company sponsored the 1998 Employee Stock Purchase Plan (ESPP) to provide eligible employees the opportunity to acquire limited quantities of the Company's Common Stock. The purchase price of each share issued under this Plan was the lesser of (i) 85% of the fair market value of the shares on the date an option was granted and (ii) 85% of the fair market value of the shares on the last day of the period during which the option was outstanding. An aggregate of 600 shares of Common Stock were originally reserved for issuance under the ESPP, of which 395 remained available to be issued at December 31, 2005. Shares purchased under the ESPP were 8 and 11 at weighted average prices of \$16.54 and \$8.79 in 2005 and 2004 respectively. The weighted average fair values of options granted under the ESPP issued in 2005 and 2004 were \$4.61 and \$2.43, respectively. In 2006, 2 shares purchased in 2005 were issued.

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Through December 31, 2005, the Company applied the intrinsic-value-based method of accounting prescribed by APB No. 25, and related interpretations to account for stock options previously issued under its stock option plans. These interpretations include FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, issued in March 2000. Under this method, compensation expense was generally recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The Company had also adopted the disclosure only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, which was released in December 2002 as an amendment to SFAS No. 123. These statements established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123 and SFAS No. 148, the Company elected to continue to apply the intrinsic-value-based method of accounting described above through December 31, 2005.

SFAS No. 123(R) as in effect prior to January 1, 2006, required the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-lived exchange-traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock.

Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options. The fair values of options granted in 2004 (no stock option grants having been made in 2006 or 2005) and options issued granted under the ESPP in 2004 and 2005 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Stock Option Plans:		
Expected life (in years)		4.00
Risk-free interest rate		2.81%
Volatility		0.70
Dividend yield		0.00%
Employee Stock Purchase Plan:		
Expected life (in years)	0.25	0.25
Risk-free interest rate	3.17%	2.33%
Volatility	0.47	0.68
Dividend yield	0.00%	0.00%

During 2003, the Board of Directors awarded stock options for 344 shares of the Company's Common Stock that were not covered by the Company's then existing stock option plans as compensation to its incoming chief executive officer. The shares have a weighted average exercise price of \$7.22. The options vest over forty-eight months in accordance with the terms of the option agreement and expire ten years after the date of grant.

The Company recorded a charge to operations in the fourth quarter of 2006 for stock based compensation related to options granted from 1998 through 2004 amounting to \$548. The portion of such amount allocable to each of the years 2006 and prior is not material to the results of operations of any year nor is the cumulative amount material to the consolidated financial statements for the year ended 2006.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)****Note 16 International Retirement Plans**

The Company sponsors retirement plans covering certain of its employees outside of the U.S. Certain of these plans are defined benefit pay-related and service-related plans, which are generally contributory. Certain German employees are covered by a non-contributory plan initiated by a predecessor of the Company. The Company has entered into an insurance contract that provides an annuity that is used to fund the current obligations under this plan. The net present value of that annuity was \$1,525 and \$1,220 as of December 31, 2006 and 2005, respectively. The net present value of that annuity is included in Other assets on the Company's Consolidated Balance Sheet at December 31, 2006 and 2005.

The following table provides a reconciliation of the changes in the projected benefit obligation under this German plan for the year ended December 31, 2006:

	2006
Reconciliation of benefit obligations:	
Obligations as of January 1	\$ 2,332
Service cost	178
Interest cost	104
Actuarial (gains) losses	(146)
Benefit payments	(33)
Effect of foreign currency exchange rate changes	273
Obligations as of December 31	\$ 2,708
Reconciliation of funded status:	
Projected benefit obligation on January 1	\$ (2,332)
Change in accumulated benefit obligation	269
Additional obligation arising from assumed future salary increases	(378)
Effect of foreign currency exchange rate changes	(267)
Funded status as of December 31 (net of tax benefit)	\$ (2,708)

The Company adopted SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132(R), as of December 31, 2006. See Note 2. The projected benefit obligation in the table above includes \$356 unrecognized net loss for the year ended December 31, 2006. At December 31, 2006, the Company recorded this \$356 net loss, net of an \$89 tax benefit, as a \$267 adjustment to Other Comprehensive Income (Loss) in accordance with SFAS No. 158. Pursuant to SFAS No. 158, the Company also recorded in 2006 the expected \$380 of 2007 service cost, benefit payments and interest cost in Accrued

Liabilities, and \$2,239, comprised of a \$1,972 non-current accrued pension liability and \$267 of unrecognized net loss (net of tax benefit), in Other Liabilities.

Note 17 Warranty Contracts

The Company provides product warranties for up to one year as part of sales transactions for certain of its systems. Revenue is allocated to warranties in an amount that approximates the Company's cost of the warranties, and such revenue is amortized over the term of the warranties. This warranty provides the customer with maintenance on the equipment during the warranty period and provides for any repair, labor and replacement parts that may be required. In connection with this activity, the Company recognized

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warranty revenue of \$5,851, \$5,855, and \$6,085 for 2006, 2005, and 2004, respectively. The Company incurred warranty costs of \$7,151, \$5,263, and \$3,655 for 2006, 2005, and 2004, respectively, as shown in the table below:

Warranty Revenue Recognition

Year Ended December 31,	Beginning Balance Deferred Warranty Revenue	Warranty Revenue Deferred	Warranty Revenue Recognized	Ending Balance Deferred Warranty Revenue
2006	\$ 3,569	\$ 6,005	\$ (5,851)	\$ 3,723
2005	3,629	5,795	(5,855)	3,569
2004	3,892	5,822	(6,085)	3,629

Warranty Costs Incurred

Year Ended December 31,	Materials	Labor and Overhead	Total
2006	\$ 3,034	\$ 4,117	\$ 7,151
2005	2,033	3,230	5,263
2004	1,446	2,209	3,655

Note 18 Computation of Net Income (Loss) Per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted income (loss) per share computations for the years ended December 31, 2006, 2005 and 2004:

	2006	2005 Restated	2004 Restated
Numerator:			
Net income (loss) available to common stockholders numerator for basic			
net income (loss) per share	\$ (30,694)	\$ 7,727	\$ 1,486
Add: Preferred stock dividends			
Interest expense associated with 6% convertible subordinated debentures			

Net income (loss) available to common stockholders numerator for dilutive net income (loss) per share	\$ (30,694)	\$ 7,727	\$ 1,486
Denominator:			
Denominator for basic net income (loss) per share-weighted average shares	17,306	14,928	13,226
Add: Effect of dilutive securities			
Stock options, restricted stock and warrants		1,075	923
Preferred stock			
6% convertible subordinated debentures			
Denominator for dilutive net income (loss) per share	17,306	16,003	14,149

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Shares of Common Stock issuable upon exercise of stock options were dilutive to net income per share in 2005 and 2004; that is, they decreased net income per share available to common stockholders. For fiscal years 2006, 2005 and 2004, shares of Common Stock issuable upon conversion of all then outstanding convertible securities were anti-dilutive. A total of 3,761 shares were excluded from the calculation of the weighted average number of potentially dilutive securities outstanding at December 31, 2006. This is composed of 676 potentially dilutive stock options, 7 out-of-the-money stock options, 2,025 shares issuable upon conversion of 6% subordinated convertible debentures, and, for a portion of the year prior to the issuance, 1,053 shares of Common Stock issuable upon conversion of Series B Convertible Preferred Stock. There were no unamortized compensation costs that were required to be included in the calculation of weighted average shares outstanding at December 31, 2006, 2005 or 2004.

Note 19 Supplemental Cash Flow Information

	2006	2005 Restated	2004 Restated
Interest payments	\$ 1,522	\$ 1,470	\$ 2,218
Income tax payments	1,064	2,186	1,135
Non-cash items:			
Acquisition of property and equipment via capitalized leases	9,038		
Conversion of 6% convertible subordinated debentures	7,250	100	
Conversion of 7% convertible subordinated debentures			10,000
Conversion of convertible redeemable preferred stock	15,242	26	79
Accrued dividends on preferred stock	1,003	37	48
Accrued liquidated damages			36
Accrued stock registration costs			159
Transfer of equipment from inventory to property and equipment(a)	2,602	1,309	1,887
Transfer of equipment to inventory from property and equipment(b)	3,064	3,180	1,137

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

Note 20 Related-Party Transactions

In connection with the Company's private placement of its Series B Convertible Preferred Stock in May 2003, Messrs. Loewenbaum and Hull, respectively, the Chairman of the Board of Directors and Chief Technology Officer, purchased an aggregate of \$1,300 of the Series B Convertible Preferred Stock out of the total \$15,804 issue of such securities that were originally issued. Clark Partners I, L.P., a New York limited partnership, purchased an additional \$5,000 of the Series B Convertible Preferred Stock. Kevin S. Moore, a member of the Board of Directors, is the president of the general partner of Clark Partners I, L.P. A special committee of the Board of Directors, composed entirely of disinterested independent directors, approved the offer and sale of the Series B Convertible Preferred Stock and recommended the transaction to the Board of Directors. The Board of Directors also approved the transaction, with interested Board members not

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participating in the vote. As of June 8, 2006 all outstanding shares had been converted to common stock. See Note 14.

In connection with the Company's private placement of its 6% convertible subordinated debentures in November and December 2003, the Chairman of the Board of Directors and certain other directors and executive officers of the Company purchased \$2,620 of the \$22,704 of these debentures that were originally issued. See Note 13. Such purchasers included the Company's Chief Executive Officer; the Chairman of the Board of Directors; a member of the Board of Directors; the Vice President, General Counsel and Secretary; and a Senior Vice President. Clark Partners I, L.P., a New York limited partnership, purchased an additional \$3,000 of these debentures. A special committee of the Board of Directors, composed entirely of disinterested independent directors, approved the offer and sale of these debentures and recommended the transaction to the Board of Directors. The Board of Directors also approved the transaction.

In connection with the acquisition in 1990 of patents for stereolithography technology from UVP, the Company made royalty payments to UVP for the use of this technology through the first quarter of 2006, at which time the Company's purchase obligation was satisfied. Pursuant to a 1987 contract between UVP and Charles W. Hull, Executive Vice President, Chief Technology Officer and a director of the Company, Mr. Hull is entitled to receive from UVP, with respect to his prior relationship with UVP, an amount equal to 10% of all royalties or other amounts received by UVP with respect to the patents, but only after recoupment of certain expenses by UVP. The Company has been advised that through December 31, 2006, Mr. Hull had received \$807 from UVP under that contract, all of which was received at or before December 31, 2005.

Note 21 Income Taxes

The components of the Company's income (loss) before income taxes are as follows:

	2006	2005 Restated	2004 Restated
Income (loss) before income taxes:			
Domestic	\$ (30,817)	\$ 2,120	\$ (4,884)
Foreign	3,716	5,595	8,965
Total	\$ (27,101)	\$ 7,715	\$ 4,081

Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

The components of income tax expense (benefit) for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005 Restated	2004 Restated
Current:			
U.S. Federal	\$ (56)	\$ 82	\$
State	14	47	46
Foreign	469	680	1,015
Total	\$ 427	\$ 809	\$ 1,061
Deferred:			
U.S. Federal	\$ 2,500	\$ (2,500)	\$
State			
Foreign	(748)		
Total	1,752	(2,500)	
Total income tax expense (benefit)	\$ 2,179	\$ (1,691)	\$ 1,061

The overall effective tax rate differs from the statutory Federal tax rate for the years ended December 31, 2006, 2005 and 2004 as follows:

% of Pretax Income (Loss)	2006	2005 Restated	2004 Restated
Tax provision based on the Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of Federal benefit	6.6	4.5	7.9
Deemed dividend related to foreign operations			75.1
Research tax credits	(0.1)		(8.8)
Foreign income tax rate differential		(5.2)	(6.6)
Change in valuation allowances	(60.2)	(54.7)	(67.3)
Adjustment to foreign deferred balances	9.1		
Other	1.6	(1.5)	(9.3)

Effective tax rate	(8.0)%	(21.9)%	26.0%
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The difference between the Company's effective tax rate for 2006 and the Federal statutory rate resulted primarily from the change in the valuation allowances discussed below.

In 2006, the Company's valuation allowance against net deferred income tax assets increased by \$16,138. This increase consisted of a \$14,673 increase against the U.S. deferred income tax assets and a \$1,465 increase in the valuation allowance against foreign deferred income tax assets. The increase in the valuation allowance against the net U.S. deferred income tax assets resulted primarily from the increase in the Company's domestic net operating losses and the reversal of the \$2,500 net deferred income tax asset previously recorded at December 31, 2005 on its Consolidated Balance Sheet. This deferred income tax asset was recorded at December 31, 2005 after the Company determined that it was more likely than not that it would be able to utilize a portion of its deferred income tax assets attributable to its U.S. income. As a result of the losses incurred during 2006 and the related prospects for the future, the Company believes that

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recording of a valuation allowance against this deferred income tax asset is prudent and appropriate in accordance with SFAS No. 109, Accounting for Income Taxes.

In light of the improvement in the Company's foreign operations and management's plan to adopt transfer pricing strategies in order to result in future foreign taxable income, the Company determined at December 31, 2006 that it is more likely than not that it would be able to utilize a portion of its deferred income tax assets attributable to foreign income taxes, and the Company accordingly reversed \$748 of its valuation allowance and recognized a corresponding benefit against its income tax provision in the Consolidated Statement of Operations for the year ended December 31, 2006.

The deemed dividend related to foreign operations in 2004 represents the tax effect of the inclusion of \$8,761 in U.S. taxable income pursuant to Section 956 of the Internal Revenue Code arising from an outstanding intercompany note. As of December 31, 2006, the intercompany note remained outstanding. No adjustment was required for 2006 or 2005 since this was previously taxed in 2004.

The components of the Company's net deferred income tax assets at December 31, 2006 and December 31, 2005 are as follows:

	2006	2005 Restated
Deferred income tax assets:		
Tax credits	\$ 4,372	\$ 4,329
Net operating loss carry-forwards	30,201	16,675
Reserves and allowances	2,577	1,348
Accrued liabilities	1,302	1,382
Capitalized patent costs	4,254	3,615
Stock options and awards	830	
Deferred revenue	53	583
Gross deferred income tax assets	43,589	27,932
Valuation allowance	(39,117)	(22,979)
Total deferred income tax assets	4,472	4,953
Deferred income tax liabilities:		
Intangibles	2,488	1,492
Deferred lease revenue	776	862
Property, plant & equipment	460	99

Total deferred income tax liabilities	3,724	2,453
Net deferred income tax assets	\$ 748	\$ 2,500

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. The provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which the Company operates.

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(in thousands, except per share data)

At December 31, 2006, \$30,201 of the Company's deferred income tax assets were attributable to \$136,133 of net operating loss carry-forwards, which consisted of \$69,918 of loss carry-forwards for U.S. Federal income tax purposes, \$57,067 of loss carry-forwards for U.S. state income tax purposes and \$9,148 of loss carry-forwards for foreign income tax purposes. The Federal net operating loss carry-forward set forth above, includes a deduction for the exercise of stock options. However, the net operating loss attributable to the excess of the tax deduction for the exercise of the stock options over the cumulative expense that would be recorded under FAS 123(R) in the financial statements is not recorded as a deferred income tax asset. The benefit of the excess deduction of \$3,151 will be recorded to additional paid-in capital when the Company realizes a reduction in its current taxes payable.

At December 31, 2005, \$16,675 of the Company's deferred income tax assets were attributable to \$78,420 of net operating loss carry-forwards, which consisted of \$39,181 of loss carry-forwards for U.S. Federal income tax purposes, \$27,134 of loss carry-forwards for U.S. state income tax purposes and \$12,105 of loss carry-forwards for foreign income tax purposes.

At December 31, 2006, 2005 and 2004, approximately \$6,510 of the Federal net operating loss carry-forwards were acquired as part of the DTM acquisition in 2001 and are subject to the annual limitation of loss deduction pursuant to Section 382 of the Internal Revenue Code of 1986, as amended. The net operating loss carry-forwards acquired as part of the DTM acquisition and certain loss carry-forwards for U.S. Federal income tax purposes will begin to expire in 2017, and certain loss carry-forwards for U.S. state income tax purposes started to expire in 2006. In addition, certain loss carry-forwards for foreign income tax purposes will begin to expire in 2012 and certain other loss carry-forwards for foreign purposes do not expire. Ultimate utilization of these loss carry-forwards depends on future taxable earnings of the Company.

At December 31, 2006, tax credits included in the Company's deferred income tax assets consisted of \$3,715 of research and experimentation tax credit carry-forwards for U.S. Federal income tax purposes, \$3,555 of such tax credit carry-forwards for U.S. state income tax purposes, \$515 of alternative minimum tax credit carry-forwards for U.S. Federal income tax purposes and \$0 of other state tax credits. At December 31, 2005, tax credits included in the Company's deferred income tax assets consisted of \$3,691 of research and experimentation tax credit carry-forwards for U.S. Federal income tax purposes, \$2,579 of such tax credit carry-forwards for U.S. state income tax purposes, \$529 of alternative minimum tax credit carry-forwards for U.S. Federal income tax purposes and \$149 of other state tax credits. The alternative minimum tax credits and the state research and experimentation tax credits do not expire. The other state tax credits expired in 2006.

The Company has not provided for any taxes on approximately \$3,962 of unremitted earnings of its foreign subsidiaries, as the Company intends to permanently reinvest all such earnings outside of the U.S.

Note 22 Segment Information

The Company operates in one reportable business segment in which it develops, manufactures and markets worldwide rapid 3-D printing, prototyping and manufacturing systems designed to reduce the time it takes to produce

three-dimensional objects. The Company conducts its business through subsidiaries in the U.S, a subsidiary in Switzerland that operates a research and production facility and sales and service offices operated by subsidiaries in the European Community (France, Germany, the United Kingdom, Italy and Switzerland) and in Asia (Japan and Hong Kong.) Revenue from unaffiliated customers attributed to Germany includes sales by the Company's German subsidiary to customers in countries other than Germany. The Company has historically disclosed summarized financial information for the geographic areas of operations as if they were segments in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

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

	2006	2005 Restated	2004 Restated
Revenue from unaffiliated customers:			
North America	\$ 58,646	\$ 65,428	\$ 52,255
Germany	24,144	23,252	25,223
Other Europe	29,740	27,402	27,184
Asia	22,290	22,996	20,948
Total	\$ 134,820	\$ 139,078	\$ 125,610

All revenue between geographic areas is recorded at transfer prices that provide for an allocation of profit (loss) between entities.

	2006	2005 Restated	2004 Restated
Revenue from or transfers between geographic areas:			
North America	\$ 41,126	\$ 40,387	\$ 25,421
Germany	4,162	2,871	2,885
Other Europe	6,068	5,666	6,517
Asia			
Total	\$ 51,356	\$ 48,924	\$ 34,823

	2006	2005 Restated	2004 Restated
Income (loss) from operations:			
North America	\$ (28,608)	\$ 3,211	\$ (3,231)
Germany	1,608	(1,104)	604
Other Europe	1,341	4,517	4,069

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Asia	1,770	2,900	4,945
Subtotal	(23,889)	9,524	6,387
Inter-segment elimination	(1,802)	(1,109)	(325)
Total	\$ (25,691)	\$ 8,415	\$ 6,062

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

	2006	2005 Restated
Assets:		
North America	\$ 82,715	\$ 76,865
Germany	25,237	15,652
Other Europe	63,368	57,098
Asia	19,218	20,426
Subtotal	190,538	170,041
Inter-company elimination	(24,344)	(16,241)
Total	\$ 166,194	\$ 153,800

	2006	2005 Restated	2004 Restated
Depreciation and amortization:			
North America	\$ 5,668	\$ 4,706	\$ 5,548
Germany	324	529	640
Other Europe	334	547	610
Asia	203	144	158
Total	\$ 6,529	\$ 5,926	\$ 6,956

	2006	2005 Restated
Long-lived assets:		
North America	\$ 38,361	\$ 24,726
Germany	8,677	6,876
Other Europe	37,200	40,475
Asia	9,470	10,448
Subtotal	93,708	82,525
Inter-company elimination	(14,142)	(12,404)

Total		\$ 79,566	\$ 70,121
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	2006	2005 Restated	2004 Restated
Capital expenditures:			
North America	\$ 18,152	\$ 1,266	\$ 403
Germany	541	1,000	97
Other Europe	445	208	92
Asia		42	189
Total	\$ 19,138	\$ 2,516	\$ 781

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

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

	2006	2005 Restated	2004 Restated
Systems and other products	\$ 46,463	\$ 55,133	\$ 46,208
Materials	52,062	44,648	37,999
Services	36,295	39,297	41,403
Total revenue	\$ 134,820	\$ 139,078	\$ 125,610

The segment information contained in Note 25 to the Company's Consolidated Financial Statements for the year ended December 31, 2005 contains a table of assets allocated by geographic region that has been restated as of December 31, 2005 to reflect corrections to the allocation of assets by geographic region as well as the effect of the adjustments to the December 31, 2005 balance sheet discussed above. See Note 3. The corrections were required due to previous calculation errors in compiling the data by geographic region.

	December 31, 2005 (As Previously Reported)	Restatement Adjustments	December 31, 2005 Restated
Assets:			
North America	\$ 102,891	\$ (26,026)	\$ 76,865
Germany	30,920	(15,268)	15,652
Other Europe	42,771	14,327	57,098
Asia	20,426		20,426
Subtotal	197,008	(26,967)	170,041
Inter-company elimination	(44,770)	28,529	(16,241)
Total assets	\$ 152,238	\$ 1,562	\$ 153,800

Note 23 Lease Obligations

The Company leases certain of its facilities and equipment under capitalized leases and other facilities and equipment under non-cancelable operating leases. The leases are generally on a net-rent basis, under which the Company pays taxes, maintenance and insurance. Leases that expire are expected to be renewed or replaced by leases on other properties. Rental expense for the years ended December 31, 2006, 2005 and 2004 aggregated \$2,367, \$2,460 and \$2,882, respectively.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

The Company's future minimum lease payments as of December 31, 2006 under capitalized leases and non-cancelable operating leases, with initial or remaining lease terms in excess of one year, were as follows:

Years ending December 31:	Capitalized Leases	Operating Leases
2007	\$ 793	\$ 1,639
2008	793	636
2009	793	122
2010	793	80
2011	784	83
Later years	15,102	35
Total minimum lease payments	\$ 19,058	\$ 2,595
Less amounts representing imputed interest	(10,046)	
Present value of minimum lease payments	9,012	
Less current portion of capitalized lease obligations	(168)	
Capitalized lease obligations, excluding current portion	\$ 8,844	

Rock Hill Facility

The Company took occupancy of its new headquarters building in November 2006. The Company leases that facility pursuant to a lease agreement with KDC-Carolina Investments 3, LP. After its initial term ending August 31, 2021, the lease provides the Company with the option to renew the lease for two additional five-year terms. The lease also grants the Company the right to cause KDC, subject to certain terms and conditions, to expand the leased premises during the term of the lease, in which case the term of the lease would be extended. Under the terms of the lease, the Company is obligated to pay all taxes, insurance, utilities and other operating costs with respect to the leased premises. The lease also grants the Company the right to purchase the leased premises and undeveloped land surrounding the leased premises on terms and conditions described more particularly in the lease.

During 2006, the Company entered into several amendments to the lease for this facility under which it agreed to pay up to \$3.4 million for certain tenant improvements and change orders necessary to complete that facility. As a result of these amendments and its investments in the tenant improvements, the Company is considered an owner of the facility under Statement of Financial Accounting Standards No. 13 Accounting for Leases, (SFAS No. 13). Therefore, as required by SFAS No. 13, as of December 31, 2006, the Company recorded a capitalized lease obligation for this

facility with a net book value of \$8,488 as of December 31, 2006, which was calculated using an assumed interest rate of 6.93%.

Furniture and Fixtures Lease

In November 2006, the Company entered into a lease financing with a financial institution covering office furniture and fixtures with a book value of \$524 as of December 31, 2006. The present value of this capitalized lease was calculated using an assumed incremental annual borrowing rate of 8.05%. In accordance with SFAS No. 13, the Company has recorded this lease as a capitalized lease. The terms of the lease require the Company to make monthly payments through October 2011.

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)***Operating Leases*

The lease for the Company's Valencia facility expires on December 31, 2007. The Company plans to continue to utilize a portion of the facility until the expiration of the lease. The annual cost of that lease amounts to \$0.8 million, which the Company expects to incur as an operating expense in 2007.

Note 24 Commitments and Contingencies

On May 6, 2003, the Company received a subpoena from the U.S. Department of Justice to provide certain documents to a grand jury investigating antitrust and related issues within its industry. The Company understands that the issues being investigated include issues involving the consent decree that the Company entered into and that was filed on August 16, 2001 with respect to the Company's acquisition of DTM Corporation and the requirement of that consent decree that the Company issue a broad intellectual property license with respect to certain patents and copyrights to another entity already manufacturing rapid prototyping industrial equipment. The Company complied with the requirement of that consent decree for the grant of that license in 2002. In connection with that investigation, the grand jury has taken testimony from various individuals, including certain of the Company's current and former employees and executives. Although the Company was originally advised that it is not a target of the grand jury investigation, it understands that the current status of this investigation is uncertain. If any claims are asserted against the Company in this matter, it intends to defend against them vigorously. In October 2006, the Company received additional subpoenas to supply certain additional information to that grand jury. The Company has furnished documents required by the subpoenas and is otherwise complying with the subpoenas.

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

Note 25 Selected Quarterly Financial Data (unaudited)

The following tables set forth unaudited selected quarterly financial data. As noted and discussed below, certain of that quarterly financial information has been restated. See Note 3.

	Quarter ended			
	December 31	September 30,	June 30,	March 31,
	2006	2006	2006	2006
			Restated	Restated
Consolidated revenue	\$ 42,576	\$ 31,470	\$ 27,131	\$ 33,643
Gross profit	16,076	10,740	5,836	13,605
Total operating expenses	21,410	19,422	16,164	14,952

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Loss from operations	(5,334)	(8,682)	(10,328)	(1,347)
Income tax (benefit) expense	(124)	2,241	39	23
Net loss	(5,959)	(11,259)	(10,525)	(1,537)
Net loss available to common stockholders	(5,959)	(11,259)	(11,528)	(1,948)
Basic net loss available to common stockholders per share	(0.31)	(0.61)	(0.71)	(0.13)
Diluted net loss available to common stockholders per share	(0.31)	(0.61)	(0.71)	(0.13)

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Table of Contents**3D Systems Corporation****Notes to Consolidated Financial Statements (Continued)****Years Ended December 31, 2006, 2005 and 2004****(in thousands, except per share data)**

	December 31, 2005 Restated	September 30, 2005 Restated	June 30, 2005 Restated	March 31, 2005 Restated
Consolidated revenue	\$ 44,037	\$ 32,173	\$ 32,444	\$ 30,424
Gross profit	20,499	14,675	13,970	13,018
Total operating expenses	16,286	13,431	12,645	11,385
Income from operations	4,213	1,244	1,325	1,633
Income tax (benefit) expense	(2,138)	100	253	94
Net income	6,333	945	935	1,193
Net income available to common stockholders	5,922	533	491	781
Basic net income available to common stockholders per share	0.39	0.04	0.03	0.05
Diluted net income available to common stockholders per share	0.32	0.03	0.03	0.05

The sum of per share amounts for each of the quarterly periods presented does not necessarily equal the total presented for the year because each quarterly amount is independently calculated at the end of each period based on the net income (loss) available to common stockholders for such period and the weighted average shares of outstanding Common Stock for such period.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
3D Systems Corporation
Rock Hill, South Carolina

The audits referred to in our report dated April 30, 2007, relating to the Consolidated Financial Statements of 3D Systems Corporation for the years ended December 31, 2006, 2005 and 2004, which is contained in Item 8 of the Form 10-K, included the audit of the financial statement schedule for the years ended December 31, 2006, 2005 and 2004 listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based upon our audit.

In our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

BDO Seidman, LLP
Los Angeles, California
April 30, 2007

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Table of Contents**SCHEDULE II****3D Systems Corporation****Valuation and Qualifying Accounts****Years ended December 31, 2006, 2005 and 2004**

Year Ended	Item	Balance at beginning of year	Additions charged to expense	Deductions	Balance at end of Year
2006	Allowance for doubtful accounts	\$ 990	\$ 1,612	\$ (243)	\$ 2,359
2005	Allowance for doubtful accounts	\$ 1,214	\$ (48)	\$ (176)	\$ 990
2004	Allowance for doubtful accounts	\$ 1,656	\$ (216)	\$ (226)	\$ 1,214
2006	Reserve for excess and obsolete inventory	\$ 1,317	\$ 968	68	\$ 2,353
2005	Reserve for excess and obsolete inventory	\$ 2,710	(733)	\$ (660)	\$ 1,317
2004	Reserve for excess and obsolete inventory	\$ 2,924	(310)	\$ 96	\$ 2,710
2006	Deferred income tax asset allowance accounts	\$ 22,979	\$ 17,890	\$ (1,752)	\$ 39,117
2005	Deferred income tax asset allowance accounts	\$ 28,810	\$ (3,331)	\$ (2,500)	\$ 22,979
2004	Deferred income tax asset allowance accounts	\$ 29,888	\$	\$ (1,078)	\$ 28,810

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