

3D SYSTEMS CORP
Form 10-Q
May 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended March 31, 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

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 April 29, 2015: 111,797,093

3D SYSTEMS CORPORATION

Quarterly Report on Form 10-Q for the

Quarter Ended March 31, 2015

TABLE OF CONTENTS

PART I. — FINANCIAL INFORMATION

<u>Item 1. Financial Statements.</u>	3
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	27
<u>Item 4. Controls and Procedures.</u>	28

PART II — OTHER INFORMATION

<u>Item 1. Legal Proceedings.</u>	29
<u>Item 1A. Risk Factors.</u>	29
<u>Item 6. Exhibits.</u>	29
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	

PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements.

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except par value)	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 199,896	\$ 284,862
Accounts receivable, net of allowance for doubtful accounts of \$13,275 (2015) and \$10,300 (2014)	153,107	168,441
Inventories, net	114,602	96,645
Prepaid expenses and other current assets	21,247	15,769
Current deferred income tax asset	18,755	14,973
Total current assets	507,607	580,690
Property and equipment, net	82,737	81,881
Intangible assets, net	293,481	251,561
Goodwill	607,570	589,537
Long term deferred income tax asset	878	816
Other assets, net	21,154	21,485
Total assets	\$ 1,513,427	\$ 1,525,970
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt and capitalized lease obligations	\$ 563	\$ 684
Accounts payable	58,717	64,378
Accrued and other liabilities	54,426	44,219
Customer deposits	7,898	6,946
Deferred revenue	37,769	32,264
Total current liabilities	159,373	148,491
Long term portion of capitalized lease obligations	8,581	8,905
Long term deferred income tax liability	31,388	30,679
Other liabilities	33,756	34,898

Edgar Filing: 3D SYSTEMS CORP - Form 10-Q

Total liabilities	233,098	222,973
Redeemable noncontrolling interests	8,872	8,872
Stockholders' equity:		
Common stock, \$0.001 par value, authorized 220,000 shares; issued 112,301 (2015) and 112,233 (2014)	112	112
Additional paid-in capital	1,256,452	1,245,462
Treasury stock, at cost: 421 shares (2015) and 709 shares (2014)	(228)	(374)
Accumulated earnings	58,943	72,124
Accumulated other comprehensive loss	(44,973)	(24,406)
Total 3D Systems Corporation stockholders' equity	1,270,306	1,292,918
Noncontrolling interests	1,151	1,207
Total stockholders' equity	1,271,457	1,294,125
Total liabilities, redeemable noncontrolling interests and stockholders' equity	\$ 1,513,427	\$ 1,525,970

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share amounts)	Quarter Ended March	
	31, 2015	2014
Revenue:		
Products	\$ 99,822	\$ 101,194
Services	60,900	46,564
Total revenue	160,722	147,758
Cost of sales:		
Products	50,476	46,816
Services	31,262	25,470
Total cost of sales	81,738	72,286
Gross profit	78,984	75,472
Operating expenses:		
Selling, general and administrative	74,292	48,720
Research and development	22,216	17,235
Total operating expenses	96,508	65,955
Income (loss) from operations	(17,524)	9,517
Interest and other expense, net	2,567	1,048
Income (loss) before income taxes	(20,091)	8,469
Provision (benefit) for income taxes	(6,943)	3,559
Net income (loss)	(13,148)	4,910
Less net income attributable to noncontrolling interests	33	33
Net income (loss) attributable to 3D Systems Corporation	\$ (13,181)	\$ 4,877
Other comprehensive income (loss):		
Pension adjustments, net of taxes	\$ 265	\$ 19
Foreign currency translation loss	(20,957)	(13)
Other comprehensive income (loss)	(20,692)	6
Less foreign currency translation gain (loss) attributable to noncontrolling interests	(125)	26
Other comprehensive loss attributable to 3D Systems Corporation	(20,567)	(20)
Comprehensive income (loss)	(33,840)	4,916
Less comprehensive income (loss) attributable to noncontrolling interests	(92)	59
Comprehensive income (loss) attributable to 3D Systems Corporation	\$ (33,748)	\$ 4,857

Edgar Filing: 3D SYSTEMS CORP - Form 10-Q

Net income (loss) per share available to 3D Systems Corporation common stockholders — basic and diluted	\$ (0.12)	\$ 0.05
--	-----------	---------

See accompanying notes to condensed consolidated financial statements.

4

3D SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Quarter Ended March	
	31, 2015	2014
Cash flows from operating activities:		
Net income (loss)	\$ (13,148)	\$ 4,910
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Benefit of deferred income taxes	(10,254)	(7,610)
Depreciation and amortization	19,470	12,486
Non-cash interest on convertible notes	—	95
Provision for bad debts	2,881	1,341
Stock-based compensation	10,329	7,276
Loss on the disposition of property and equipment	253	286
Changes in operating accounts:		
Accounts receivable	17,986	(11,402)
Inventories	(20,011)	(13,034)
Prepaid expenses and other current assets	(2,784)	(7,375)
Accounts payable	(5,815)	4,267
Accrued and other liabilities	(4,373)	8,273
Customer deposits	1,070	976
Deferred revenue	2,535	(396)
Other operating assets and liabilities	924	215
Net cash provided by (used in) operating activities	(937)	308
Cash flows from investing activities:		
Purchases of property and equipment	(3,693)	(3,551)
Additions to license and patent costs	(203)	(210)
Cash paid for acquisitions, net of cash assumed	(77,984)	(2,000)
Other investing activities	(600)	(100)
Net cash used in investing activities	(82,480)	(5,861)
Cash flows from financing activities:		
Tax benefits from share-based payment arrangements	447	5,448
Proceeds from exercise of stock options and restricted stock, net	360	484
Repayment of capital lease obligations	(176)	(44)
Net cash provided by financing activities	631	5,888
Effect of exchange rate changes on cash	(2,180)	53

Edgar Filing: 3D SYSTEMS CORP - Form 10-Q

Net increase (decrease) in cash and cash equivalents	(84,966)	388
Cash and cash equivalents at the beginning of the period	284,862	306,316
Cash and cash equivalents at the end of the period	\$ 199,896	\$ 306,704
Cash interest payments	\$ 143	\$ 132
Cash income tax payments	1,707	2,407
Transfer of equipment from inventory to property and equipment, net (a)	2,539	2,300
Transfer of equipment to inventory from property and equipment, net (b)	1,822	16
Stock issued for acquisitions of businesses	—	2,000

- (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			Treasury Stock		Accumulated Earnings	Other Comprehensive Income (Loss)	Total 3D Systems Corporation Stockholders' Equity	Equity Attributable to Noncontrolling Interests	Total Stockholders' Equity
	Shares	Par Value \$0.001	Additional Paid In Capital	Shares	Amount					
Balance at December 31, 2014	112,233	\$ 112	\$ 1,245,462	709	\$ (374)	\$ 72,124	\$ (24,406)	\$ 1,292,918	\$ 1,207	\$ 1,294,125
Tax benefits from share-based payment arrangements	—	—	447	—	—	—	—	447	—	447
Issuance (repurchase) of restricted stock, net	286	—	286	24	(22)	—	—	264	—	264
Issuance of restricted stock from treasury shares	(218)	—	(72)	(312)	168	—	—	96	—	96
Stock-based compensation expense	—	—	10,329	—	—	—	—	10,329	—	10,329
Net income (loss)	—	—	—	—	—	(13,181)	—	(13,181)	33	(13,148)
Noncontrolling interests for business combinations	—	—	—	—	—	—	—	—	36	36
	—	—	—	—	—	—	265	265	—	265

Pension adjustment											
Foreign currency translation adjustment	—	—	—	—	—	—	(20,832)	(20,832)	(125)	(20,9	
Balance at March 31, 2015	112,301	\$ 112	\$ 1,256,452	421	\$ (228)	\$ 58,943	\$ (44,973)(a)	\$ 1,270,306	\$ 1,151	\$ 1,27	

(a) Accumulated other comprehensive loss of \$44,973 consists of foreign currency translation loss of \$43,027 and a cumulative unrealized pension loss of \$1,946.

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 ended March 31, 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 April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently in the process of evaluating the impact of adoption of ASU 2015-03 on its consolidated balance sheets.

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

(2) Acquisitions

The Company completed one acquisition in the first quarter of 2015, which is discussed below.

On February 9, 2015, the Company acquired 100% of the outstanding shares and voting rights of Cimatron Ltd. (“Cimatron”), a provider of integrated 3D CAD/CAM software and solutions for manufacturing. The fair value of the consideration paid for this acquisition, net of cash acquired, was \$77,984, all of which was paid in cash. The operations of Cimatron have been integrated into the Company’s products and service revenues. The fair value of the consideration paid for this acquisition was allocated to the assets purchased and liabilities assumed, based on their estimated fair values as of the acquisition date, with any excess recorded as goodwill, and is included in the table below, which summarizes the first quarter 2015 acquisition. Factors considered in determination of goodwill include synergies, vertical integration and strategic fit for the Company.

The acquisition completed in the first quarter is not material relative to the Company’s assets or operating results; therefore, no proforma financial information is provided.

The Company's purchase price allocation for the acquired company is preliminary and subject to revision as more detailed analyses are completed and additional information about the fair value of assets and liabilities becomes available. The amounts related to the acquisition are allocated to the assets acquired and the liabilities assumed and are included in the Company's unaudited condensed consolidated balance sheet at March 31, 2015 as follows:

(in thousands)	2015
Fixed assets	\$ 287
Other intangible assets, net	50,700
Goodwill	37,580
Other assets, net of cash acquired	17,040
Liabilities	(27,623)
Net assets acquired	\$ 77,984

Subsequent Acquisition

On April 2, 2015, the Company acquired 65% of the equity interests in Wuxi Easyway Model Design and Manufacture Co. Ltd., a manufacturing service bureau and distributor of 3D printing and scanning products in China. Under the terms of the agreement, the Company has an option to acquire the remainder of the equity interests between the third and fifth anniversary of the closing.

(3) Inventories

Components of inventories, net at March 31, 2015 and December 31, 2014 were as follows:

(in thousands)	2015	2014
Raw materials	\$ 54,489	\$ 46,850
Work in process	2,338	2,304
Finished goods and parts	57,775	47,491
Inventories, net	\$ 114,602	\$ 96,645

(4) Property and Equipment

Property and equipment at March 31, 2015 and December 31, 2014 were as follows:

(in thousands)	2015	2014	Useful Life (in years)
Land	\$ 541	\$ 541	N/A
Building	9,373	9,370	25
Machinery and equipment	93,467	84,443	3-7
Capitalized software	3,853	3,693	3-5
Office furniture and equipment	4,566	3,478	3-5
Leasehold improvements	14,561	12,447	Life of lease (a)
Rental equipment	498	557	5
Construction in progress	11,866	20,082	N/A
Total property and equipment	138,725	134,611	
Less: Accumulated depreciation and amortization	(55,988)	(52,730)	
Total property and equipment, net	\$ 82,737	\$ 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.

Depreciation and amortization expense on property and equipment for the quarters ended March 31, 2015 and 2014 was \$4,709 and \$3,036 respectively.

(5) Intangible Assets

Intangible assets other than goodwill at March 31, 2015 and December 31, 2014 were as follows:

	2015			2014			Useful Life (in years)	Weighted Average Useful Life Remaining (in years)
	(in thousands) Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net		
Intangible assets with finite lives:								
Licenses	\$ 5,875	\$ (5,875)	\$ —	\$ 5,875	\$ (5,875)	\$ —	N/A	N/A
Patent costs	20,949	(7,613)	13,336	20,733	(7,369)	13,364	5-20	3
Acquired technology	71,498	(20,687)	50,811	57,383	(18,241)	39,142	3-10	4