3D SYSTEMS CORP
Form 10-Q/A
February 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2006

OR

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

Commission File No. 0-22250

3D SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

(803) 326-3900

(Registrant s Telephone Number, Including Area Code)

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

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

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Shares of Common Stock, par value $0.001, outstanding as of August 11, 2006: 18,326,170

3D SYSTEMS CORPORATION

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION		
	Explanatory Statement Regarding Restatement		i
	ITEM 1.	Financial Statements (Unaudited)	1
		Condensed Consolidated Balance Sheets June 30, 2006 and December 31, 2005 (Restated)	1
		Condensed Consolidated Statements of Operations Three Months and Six Months Ended June 30, 2006 and June 30, 2005 (Restated)	2
		Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2006 and June 30, 2005 (Restated)	3
		Condensed Consolidated Statements of Comprehensive Income (Loss) Three Months and Six Months Ended June 30, 2006 and June 30, 2005 (Restated)	5
		Notes to Condensed Consolidated Financial Statements (Restated) June 30, 2006	6
	ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	46
	ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk	87
	ITEM 4.	Controls and Procedures	88
PART II.	OTHER INFORMATION		
	ITEM 1.	Legal Proceedings	96
	ITEM 1A.	Risk Factors	96
	ITEM 4.	Submission of Matters to a Vote of Security Holders	98
	ITEM 6.	Exhibits	99
SIGNATURES			101

PART I

EXPLANATORY STATEMENT REGARDING RESTATEMENT

Restatement of Condensed Consolidated Financial Statements

On November 3, 2006, we announced that management and the Audit Committee of our Board of Directors had determined, based on information presented by our management in connection with the preparation of our financial statements for the third quarter of 2006, that our financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 contained errors. As a result, the Audit Committee concluded that those financial statements should be restated and that investors should not rely upon those financial statements without taking into account the anticipated adjustments described in our Current Report on Form 8-K filed on November 3, 2006 and the press release filed as an exhibit thereto. The adjustments described in that Form 8-K and related press release are reflected in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and in the restated financial statements included in this Form 10-Q/A.

We also announced on November 3, 2006 that we were assessing whether our financial statements for prior periods contained errors and as a result should be restated. On December 14, 2006, we announced that management and the Audit Committee had completed our assessment of the prior-period financial statements and that, based on information presented by our management, the financial statements included in our Annual Reports on Form 10-K for the 2004 and 2005 calendar years also contained errors and should be restated. In evaluating the need to restate those periods, we also took into consideration adjustments that had been identified previously as not being material to those periods and have included those adjustments in the restated amounts for the applicable 2005 and 2004 periods.

We identified the errors in the first and second quarter 2006 financial statements primarily as a result of our efforts to remediate the material weaknesses that we previously identified and disclosed in our second quarter 2006 Form 10-Q as well as through our ongoing efforts:

(a) to implement our new ERP system;

(b) to reconcile the records in our new ERP system and those in our legacy systems; and

(c) to test our internal controls in the context of the new ERP system environment.

As part of these efforts, management:

(i) has carried out a comprehensive account reconciliation initiative to test and verify the accuracy and integrity of information recorded by, and data imported and input from our legacy accounting system into, the new ERP system;

(ii) is continuing to train employees in the use of the new ERP system and our established system of internal controls; and

(iii) is continuing to promote strict adherence to those established internal controls.

We have also performed physical inventory counts and undertaken and completed a variety of other confirmatory procedures. See Part I, Item 4, Controls and Procedures.

This Quarterly Report on Form 10-Q/A includes the restated financial information for each period affected by the restatement. That information is also included in the Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2006 and in the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 that we have filed with the Securities and Exchange Commission. Such restated financial information will also be included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The following table shows the impact of the correction of all errors on income (loss) available to common stockholders on a pretax basis for the full years ended December 31, 2004 and 2005 and for each calendar quarter thereafter through June 30, 2006. It also shows the cumulative impact of prior-period errors on the accumulated deficit in earnings at December 31, 2003, which errors were not material either individually or in the aggregate. The tax effect of the correction of these errors on each restated period was either minimal or nil.

	Accumulated Deficit in Earnings	Effect of Restatement on Income (Loss) Available to Common Stockholders							
		Year Ended	Quarter Ended				Year Ended	Quarter Ended	
	December 31, 2003	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005	March 31, 2006	June 30, 2006
	(Amounts in $000s)								
Previously reported	$ (47,442)	$ 1,027	$ 783	$ 855	$ 749	$ 6,017	$ 8,404	$ (1,244)	$ (8,944)
Adjustments:									
Credit memos		10	(19)	(79)	(164)	(101)	(363)	(251)	(978)
Royalty income/expense		253	5	(17)	(17)	(293)	(322)	13	81
Recognition of warranty and training revenue	32	220	11	(246)	13	33	(189)	121	(101)
Stock issuance costs						211	211		
Prepaid materials reconciliation				(29)	(4)	(64)	(97)	(201)	(772)
Depreciation of fixed assets		(4)	(19)	(37)	(42)	(63)	(161)	(106)	(109)
Accrual for professional services						(15)	(15)	(247)	
Inventory usage						22	22		(412)
Hedging activities									(256)
Other		(20)	20	44	(2)	(16)	46	(86)	76
Tax provision	(191)					191	191	53	(113)
Total adjustments:	(159)	459	(2)	(364)	(216)	(95)	(677)	(704)	(2,584)
Restated	$ (47,601)	$ 1,486	$ 781	$ 491	$ 533	$ 5,922	$ 7,727	$ (1,948)	$ (11,528)
Net income (loss) available to common stockholders per share diluted (as previously reported)		$ 0.07	$ 0.05	$ 0.05	$ 0.05	$ 0.32	$ 0.53	$ (0.08)	$ (0.55)
Effect of restatement		0.04	(0.00)	(0.02)	(0.02)	(0.00)	(0.05)	(0.05)	(0.16)
Net income (loss) available to common stockholders per share diluted (restated)		$ 0.11	$ 0.05	$ 0.03	$ 0.03	$ 0.32	$ 0.48	$ (0.13)	$ (0.71)

As shown in this table, the errors that affect income (loss) available to common stockholders in each restated period primarily include:

- $1.6 million in the aggregate of errors related to credit memoranda issued to customers, of which $1.2 million was attributable to the first and second quarters of 2006, $0.4 million was attributable to the 2005 periods and a nominal credit was attributable to 2004.

- $1.1 million in the aggregate of errors related to the reconciliation of prepaid materials accounts from sub-ledger to general ledger, substantially all of which was attributable to the first and second quarters of 2006, and $0.1 million of which was attributable to the 2005 periods.

- $0.4 million in the aggregate of errors related to additional depreciation expense for items placed in service that had not been removed from construction-in-progress (CIP) accounts prior to the restatement, approximately equal amounts of which were attributable to the 2006 and 2005 periods and a nominal amount was attributable to 2004.

- $0.4 million in the aggregate of errors and other adjustments related to inventory, which was primarily attributable to the second quarter of 2006.

- $0.3 million in the aggregate of errors in calculations related to hedging activities on foreign currency transactions, all of which was attributable to the second quarter of 2006.

ii

The aggregate effect of these adjustments was to:

- increase net loss for the quarter ended June 30, 2006 by $2.6 million, or 28.9%, from $8.9 million as originally reported to $11.5 million as restated;

- increase net loss by $0.7 million, or 56.6%, from $1.2 million as originally reported to $1.9 million as restated for the quarter ended March 31, 2006;

- decrease net income by $0.7 million, or 8.1%, from $8.4 million as originally reported to $7.7 million as restated for the year ended December 31, 2005;

- for the respective quarters of 2005:

- decrease net income by 0.2% with net income of $0.8 million both as originally reported and as restated for the quarter ended March 31, 2005;

- decrease net income by $0.4 million or 42.6% and from $0.9 million as originally reported to $0.5 million as restated for the quarter ended June 30, 2005;

- decrease net income by $0.2 million or 28.8% with net income of $0.7 million as originally reported to $0.5 million as restated for the quarter ended September 30, 2005; and

- decrease net income by $0.1 million or 1.6% and from $6.0 million as originally reported to $5.9 million as restated for the quarter ended December 31, 2005; and

- increase net income by $0.5 million, or 44.7%, for the year ended December 31, 2004 from $1.0 million as originally reported to $1.5 million as restated.

On a per share basis, the aggregate effect of these adjustments was to:

- increase diluted net loss per share for the quarter ended June 30, 2006 by $0.16 from $0.55 as originally reported to $0.71 as restated;

- increase diluted net loss per share by $0.05 from $0.08 as originally reported to $0.13 as restated for the quarter ended March 31, 2006;

- decrease diluted net income per share by $0.05 from $0.53 as originally reported to $0.48 as restated for the year ended December 31, 2005;

- for the respective quarters of 2005:

- there was no change to diluted net income per share for the quarter ended March 31, 2005;

- decrease diluted net income per share by $0.02 from $0.05 as originally reported to $0.03 as restated for the quarter ended June 30, 2005;

- decrease diluted net income per share by $0.02 from $0.05 as originally reported to $0.03 as restated for the quarter ended September 30, 2005;

- there was no change to diluted net income per share for the quarter ended December 31, 2005;

- the sum of diluted net income per share for the four 2005 quarters does not equal the diluted net income per share for the year ended December 31, 2005 due to changes in the weighted average shares outstanding at the end of each quarterly period, which were not affected by the restatement;

- increase diluted net income per share by $0.04 from $0.07 as originally reported to $0.11 as restated for the year ended December 31, 2004.

Compared to the amounts originally reported, the restatement resulted in a $0.3 million increase in cash and cash equivalents at June 30, 2006 and a $0.2 million increase in cash and cash equivalents at March 31, 2006 that arose from the reclassification of certain unrestricted deposits previously erroneously recorded in prepaid expenses and other current assets.

The restatement also resulted in a $0.3 million increase in cash and cash equivalents at March 31, 2005, a $0.2 million increase in cash and cash equivalents at June 30, 2005, September 30, 2005 and December 31, 2005 and a $0.2 million increase in cash and cash equivalents at December 31, 2004 primarily as a result of the reclassification of certain amounts previously erroneously recorded as prepaid expenses and other current assets, as discussed above. See Note 2 to the Condensed Consolidated Financial Statements.

The restatement also resulted in a $0.2 million reduction to the ending retained earnings balance at December 31, 2003 for errors related to prior periods that we believe are immaterial individually and in the aggregate.

As a result of the errors mentioned above, we have restated:

- our historical consolidated balance sheets as of December 31, 2004, the last calendar day for each quarter in 2005, including December 31, 2005, and the first two quarters in 2006;

- our consolidated statements of operations for the years ended December 31, 2004 and 2005, each quarter ended in 2005 and the first two quarters in 2006; and

- our consolidated statements of cash flows for the year ended December 31, 2004, the three, six and nine months ended March 31, 2005, June 30, 2005 and September 30, 2005, respectively, and for the year ended December 31, 2005, and the three and six months ended March 31, 2006 and June 30, 2006, respectively.

The restated consolidated financial information is set forth in Note 2 to the Condensed Consolidated Financial Statements below and is further discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations.

As disclosed in the Form 10-Q originally filed with respect to the period ended June 30, 2006, management determined that control deficiencies existed relating to the design and implementation of controls regarding our procedures for (a) reconciling and compiling the financial records and (b) processing and safeguarding of inventory that constituted, either individually or in the aggregate, material weaknesses in our internal control over financial reporting. In the course of our efforts to remediate those deficiencies and these weaknesses, we determined the existence of the errors discussed above, which led to the determination to carry out the restatement discussed above. We also identified additional control deficiencies with respect to the third quarter of 2006 that we believe, taken together with the material weaknesses that we previously disclosed in the originally filed second-quarter Form 10-Q, constitute individually or in the aggregate additional material weaknesses with respect to those matters. These additional deficiencies relate to (a) a deficiency in the invoicing and processing of accounts receivable and the application of customer payments and (b) deficiencies in the timeliness and accuracy of our period-end financial statement closing process and the monitoring of our accounting function and oversight of financial controls. We have taken steps to remediate certain of these deficiencies, and we are taking steps to remediate the others. See Part I, Item 4, Controls and Procedures, of this Form 10-Q/A for additional information.

As used in this Form 10-Q/A, the terms we, us, our and the Company refer to 3D Systems Corporation and our consolidated subsidiaries, and a dollar amounts other than per share amounts are in thousands, unless otherwise noted.

Item 1. Financial Statements

3D SYSTEMS CORPORATION
Condensed Consolidated Balance Sheets
June 30, 2006 and December 31, 2005
(in thousands, except par value)
(unaudited)

	June 30, 2006 Restated	December 31, 2005 Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,000	$ 24,328
Accounts receivable, net of allowance for doubtful accounts of $1,328 (2006) and $990 (2005)	30,223	32,766
Inventories, net of reserves of $1,254 (2006) and $1,317 (2005)	22,253	14,810
Deferred tax assets	2,500	2,500
Restricted cash short-term	1,200	
Prepaid expenses and other current assets	9,454	9,275
Assets held for sale	3,454	
Total current assets	82,084	83,679
Property and equipment, net	11,000	11,992
Intangible assets, net	7,300	8,577
Goodwill	45,328	44,747
Restricted cash		1,200
Other assets, net	765	985
	$ 146,477	$ 151,180
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 3,652	$ 207
Accounts payable	16,063	11,684
Accrued liabilities	11,550	12,316
Customer deposits	2,964	1,945
Deferred revenue	12,579	13,725
Total current liabilities	46,808	39,877
Long-term debt, less current portion	20	3,568
Convertible subordinated debentures	22,354	22,604
Other liabilities	1,082	1,001
	70,264	67,050
Authorized 5,000 preferred shares; Series B convertible redeemable preferred stock, authorized 2,670 shares, issued and outstanding 0 and 2,617, 2006 and 2005, respectively		15,242
Stockholders equity:		
Common stock, $0.001 par value, authorized 60,000 shares; issued and outstanding 18,326 (2006) and 15,302 (2005)	18	15
Additional paid-in capital	123,364	106,530
Additional compensation		(1,461)
Treasury stock, at cost; 25 shares at June 30, 2006 and 12 shares at December 31, 2005	(25)	(12)
Accumulated deficit in earnings	(47,238)	(35,175)
Accumulated other comprehensive income (loss)	94	(1,009)
Total stockholders equity	76,213	68,888
	$ 146,477	$ 151,180

See accompanying notes to condensed consolidated financial statements.

1

3D SYSTEMS CORPORATION
Condensed Consolidated Statements of Operations
Three Months and Six Months Ended June 30, 2006 and June 30, 2005
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30, 2006 Restated	2005 Restated	Six Months Ended June 30, 2006 Restated	2005 Restated
Revenue:				
Products	$ 18,933	$ 22,353	$ 43,185	$ 42,591
Services	8,198	10,091	17,589	20,277
Total revenue	27,131	32,444	60,774	62,868
Cost of sales:				
Products	14,490	12,277	27,500	22,552
Services	6,805	6,197	13,833	13,328
Total cost of sales	21,295	18,474	41,333	35,880
Gross profit	5,836	13,970	19,441	26,988
Operating expenses:				
Selling, general and administrative	10,910	9,937	20,967	18,647
Research and development	2,974	2,701	6,231	5,376
Severance and restructuring	2,280	7	3,918	7
Total operating expenses	16,164	12,645	31,116	24,030
Income (loss) from operations	(10,328)	1,325	(11,675)	2,958
Interest and other expense, net	158	137	325	483
Income (loss) before provision for income taxes	(10,486)	1,188	(12,000)	2,475
Provision for income taxes	39	253	62	347
Net income (loss)	(10,525)	935	(12,062)	2,128
Preferred stock dividends	1,003	444	1,414	856
Net income (loss) available to common stockholders	$ (11,528)	$ 491	$ (13,476)	$ 1,272
Net income (loss) available to common stockholders per share basic	$ (0.71)	$ 0.03	$ (0.85)	$ 0.09
Net income (loss) available to common stockholders per share diluted	$ (0.71)	$ 0.03	$ (0.85)	$ 0.08

See accompanying notes to condensed consoldiated financial statements.

3D SYSTEMS CORPORATION
Condensed Consolidated Statements of Cash Flows
Six Months Ended June 30, 2006 and June 30, 2005
(in thousands)
(unaudited)

	June 30, 2006 Restated	June 30, 2005 Restated
Cash flows from operating activities:		
Net income (loss)	$ (12,062)	$ 2,128
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for deferred income taxes	62	347
Depreciation and amortization	3,414	3,177
Bad debt provision (benefit)	349	(122)
Stock-based compensation expense	1,336	551
Adjustment to inventory reserves	(101)	(694)
Loss (gain) on disposition of property and equipment	(96)	38
Changes in operating accounts:		
Accounts receivable	3,241	1,747
Lease receivables	69	200
Inventories	(7,310)	(248)
Prepaid expenses and other current assets	10	(3,635)
Other assets	401	54
Accounts payable	4,268	(1,717)
Accrued liabilities	(1,104)	(3,738)
Customer deposits	989	109
Deferred revenue	(1,487)	(695)
Other liabilities	(54)	(426)
Net cash used in operating activities	(8,075)	(2,924)
Cash flows from investing activities:		
Purchases of property and equipment	(3,453)	(709)
Additions to licenses and patents	(226)	(238)
Proceeds from the sale of property and equipment	248	
Software development costs	(298)	(444)
Net cash used in investing activities	(3,729)	(1,391)
Cash flows from financing activities:		
Stock option, stock purchase plan and restricted stock proceeds	1,948	7,240
Repayment of long-term debt	(103)	(88)
Payments under obligation to former 3D Systems SA stockholders		(439)
Payments of preferred stock dividends	(785)	(785)
Stock registration costs		(103)
Payment of accrued liquidated damages		(36)
Net cash provided by financing activities	1,060	5,789
Effect of exchange rate changes on cash	(584)	385
Net increase (decrease) in cash and cash equivalents	(11,328)	1,859
Cash and cash equivalents at the beginning of the period	24,328	26,505
Cash and cash equivalents at the end of the period	$ 13,000	$ 28,364

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION
Condensed Consolidated Statements of Cash Flows (Continued)
Six Months Ended June 30, 2006 and June 30, 2005
(in thousands)
(unaudited)

Supplemental Cash Flow Information		
Interest payments	$ 755	$ 738
Income tax payments	816	1,132
Non-cash items		
Conversion of 6% convertible subordinated debentures	250	100
Conversion of Series B convertible preferred stock	15,240	26
Accrued dividends on preferred stock		816
Accreted dividends on preferred stock	1,003	
Transfer of equipment from inventory to property and equipment, net(a)	846	2,096
Transfer of equipment to inventory from property and equipment, net(b)	$ 304	$ 1,449

(a) Inventory is transferred from inventory to property and equipment, net at cost when the Company requires additional machines for training, demonstration or short-term rentals.

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

See accompanying notes to condensed consolidated financial statements.

4

3D SYSTEMS CORPORATION
Condensed Consolidated Statements of Comprehensive Income (Loss)
Three Months and Six Months Ended June 30, 2006 and June 30, 2005
(in thousands)
(unaudited)

	Three Months Ended June 30, 2006 Restated	2005 Restated	Six Months Ended June 30, 2006 Restated	2005 Restated
Net income (loss)	$ (10,525)	$ 935	$ (12,062)	$ 2,128
Foreign currency translation	882	(677)	1,104	(856)
Comprehensive income (loss)	$ (9,643)	$ 258	$ (10,958)	$ 1,272

See accompanying notes to condensed consolidated financial statements.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of 3D Systems Corporation and its subsidiaries (collectively the Company). All significant intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim reporting. Accordingly, they omit certain footnotes and other financial information that are required for complete financial statements. In management s opinion, after giving effect to the restatement presented in Note 2, all adjustments considered necessary for a fair presentation of the condensed consolidated financial position as of June 30, 2006, the condensed consolidated results of operations for the three month and six month periods ended June 30, 2006 and June 30, 2005, and the condensed consolidated statements of cash flows for the six months ended June 30, 2006 and June 30, 2005 have been included.

The financial information contained in the condensed consolidated financial statements for the first six months of 2006 and the 2005 periods set forth herein have been restated, as described in Note 2 below.

The results set forth in the condensed consolidated statements of operations for the three months and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated balance sheet at December 31, 2005 has been derived from the Company s annual historical financial statements, as adjusted for the restatement set forth in Note 2, at that date but omits certain of the information and footnotes required by GAAP for complete financial statements.

Certain amounts in the 2005 condensed consolidated financial statements, as restated, have been reclassified in order to conform with the 2006 presentations.

The Company is responsible for the unaudited condensed consolidated financial statements included in this document. As these are condensed financial statements, they should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 and the information set forth in Note 2.

(2) Financial Statement Restatement

On November 3, 2006, the Company announced that management and the Audit Committee of the Board of Directors had determined, based on information presented by management in connection with the preparation of the Company s financial statements for the third quarter of 2006, that its financial statements included in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 contained errors and should be restated.

The Company also announced at that time that it was assessing whether its financial statements for prior periods should be restated. On December 14, 2006, the Company announced that management and the Audit Committee had completed their assessment of the prior-period financial statements and that, based on information presented by management, the Company s financial statements included in its Annual Reports on Form 10-K for the 2004 and 2005 calendar years also contained errors and should be

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

restated. In evaluating the need to restate those periods, the Company also took into consideration adjustments that had been identified previously as not being material to those periods, and those adjustments are included in the restated amounts for the applicable 2005 and 2004 periods.

The Company has identified and evaluated the errors noted in its prior-period financial statements and has corrected those errors through adjustments reflected in the restated historical consolidated financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. The Company also assessed on a quarterly basis the materiality of prior-period misstatements that were previously identified but not corrected because they were originally considered to be immaterial. As a result of the Company s analysis of errors identified during the third quarter of 2006 that were attributable to prior periods as well as previously unadjusted amounts attributable to prior periods, the Company concluded that the prior-period impact was material in the second and fourth quarters of 2005 as well as for the years ended December 31, 2005 and 2004. Therefore, the restated financial information set forth herein reflects adjustments to correct or record all such previously unadjusted amounts.

At the end of the second quarter of 2006, the Company first identified and disclosed control deficiencies in its procedures for (a) reconciling and compiling its financial records for the second quarter of 2006 and (b) processing and safeguarding inventory for the period ended June 30, 2006 that it concluded constituted, individually or in the aggregate, material weaknesses.

With respect to the Company s procedures for compiling and reconciling its financial records for the second quarter of 2006, the Company determined that the material weaknesses primarily arose as a result of the following contributing factors:

- inexperience and lack of training of personnel with respect to the closing procedures required under the Company s new enterprise resource management (ERP) system;

- unfamiliarity with the reports generated by its new ERP system such that their utility in compiling and reconciling financial data was not fully recognized in connection with the quarter-end closing process;

- the combination of starting up its new ERP system, addressing problems with supply chain and order processing and fulfillment activities, and conflicting demands on its employees time;

- human errors in entering, completing and correcting product and vendor data in the ERP system; and

- difficulties in consolidating European financial information and in the U.S. consolidation process.

With respect to inventory accounting matters, the Company determined that the material weaknesses relating to that matter primarily resulted from three fundamental sources:

- insufficient planning and execution of the conversion from the Company s legacy systems to its new ERP system;

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

- errors or corruption in the data migrated from its legacy accounting systems to its new ERP system; and

- data that was missing from, and errors in inputting data into, its new ERP system.

The Company also noted that such inventory accounting matters also arose out of the significant operational difficulties that the Company encountered in taking, processing and filling orders on its new ERP system during the second quarter of 2006 both directly and through certain of its third-party suppliers to end users, including a logistics and warehousing firm that the Company employed beginning in the second quarter of 2006.

As the Company prepared its financial statements for the periods ended September 30, 2006, it discovered errors in its financial statements for the periods ended March 31, 2006 and June 30, 2006 and for prior periods that are discussed below in this Note 2 and that led to the restatement of its financial statements set forth herein. The Company identified these errors primarily as a result of its efforts to remediate the material weaknesses that it disclosed with respect to the second quarter of 2006 and through its efforts to implement its new ERP system, to reconcile the records in its new ERP system with those in its legacy systems, and to test its internal controls in the context of its new ERP system environment.

In connection with the identification of these errors and the preparation of the Company s third-quarter financial statements, it identified additional control deficiencies that it believes, taken together with the material weaknesses that it previously disclosed with respect to the second quarter of 2006, constitute individually or in the aggregate material weaknesses with respect to those matters. These additional deficiencies relate to (a) a deficiency in the invoicing and processing of accounts receivable and the application of customer payments and (b) deficiencies in the timeliness and accuracy of its period-end financial statement closing process and the monitoring of its accounting function and oversight of financial controls.

With respect to the deficiency in the Company s procedures for the processing of and accounting for accounts receivable and the application of customer payments, the Company determined that this material weakness resulted in the following errors in the Company s financial statements:

- The Company experienced errors in the invoicing and recording of customer billings, in the application of customer payments and in the reconciliation of customer accounts. These matters required the Company to issue and record credit memoranda for the benefit of customers for product returns, pricing adjustments, changes to service contracts, freight-related matters and other similar matters that are discussed elsewhere in this Note 2. The Company also identified cash that it had received but which had not been applied to customer accounts or the related accounts receivable.

- Some customer contracts had not been fully integrated and reflected in its new ERP system.

- Certain tax-exempt customers were charged sales tax in error and certain customers were inadvertently not billed for sales tax on their purchases.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

With respect to the deficiency in the timeliness and accuracy of the Company s period-end financial statement closing process and the monitoring of its accounting function and oversight of financial controls, it determined that this material weakness primarily arose as a result of the following contributing factors:

- The combination of its relocation to Rock Hill, South Carolina, and the difficulties that it encountered in implementing its new ERP system;

- The loss of certain experienced accounting and other personnel who did not relocate to Rock Hill;

- Inexperience and lack of training of newly hired personnel with respect to its existing system of internal controls and the closing procedures required under its new ERP system;

- Unfamiliarity with the reports generated by its new ERP system such that their utility in compiling and reconciling financial data was not fully recognized in connection with the quarter-end closing process;

- The combination of starting up its new ERP system, addressing problems with supply chain and order processing and fulfillment activities, and conflicting demands on its employees time;

- Human errors in entering, completing and correcting product and vendor data in the ERP system; and

- Contrary to its policies and procedures, a lack of consistent and effective review and supervision of account reconciliations and data entries at various levels of its accounting organization to confirm, analyze and reconcile account balances that adversely affected its financial reporting and disclosure controls.

The material weaknesses described in this Note 2, combined with the time needed to complete the Company s assessment of the need to restate its financial statements, rendered it unable to complete its financial statements for the periods ended September 30, 2006 on a timely basis and also necessitated significant additional resources and efforts to complete its third-quarter financial statements.

The Company also undertook a review of the potential effect of the financial statement errors that it discovered on prior periods. As discussed elsewhere in this Note 2, on November 3, 2006, it announced that management and the Audit Committee of its Board of Directors had determined, based on information presented by its management in connection with the preparation of its financial statements for the third quarter of 2006, that its financial statements as of and for the quarters ended March 31, 2006 and June 30, 2006 should be restated as a result of the errors in them that the Company had discovered, and on December 14, 2006, it announced that management and the Audit Committee had completed their assessment of the Company s prior-period financial statements and that, based on information presented by management, the Company s financial statements as of and for the years ended December 31, 2004 and 2005 also contained errors and should be restated. As discussed elsewhere in this Note 2, in evaluating the need to restate those periods, the Company also took into consideration audit adjustments that had been identified previously as not being material to those periods, and it has included those adjustments in the restated amounts for the applicable 2005 and 2004 periods.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The restatement of the errors and previously unrecorded audit adjustments that the Company identified included the following:

- Errors in the invoicing and recording of customer billings, in the application of customer payments and in the reconciliation of customer accounts that were corrected by the issuance and recording of credit memoranda for the benefit of customers for product returns, pricing adjustments, changes to service contracts, freight-related matters and other similar matters.

- Errors related to the timing of recognition of royalty income and expense.

- Errors related to the timing of the recognition of warranty and training revenue.

- Errors related to securities issuance costs that arose as a result of expensing such costs rather than applying such costs against the net proceeds of sale of the related securities.

- Errors related to prepaid materials that arose from the incomplete reconciliation of such accounts between the sub-ledger and the general ledger for the affected periods.

- Errors related to the failure to record depreciation expense for assets that had been placed in service but which remained recorded in the Company s construction-in-progress (CIP) accounts.

- Errors related to the timing of expenses for certain unrelated third party professional services.

- Errors related to accounts payable that arose from the incomplete reconciliation of such accounts between the sub-ledger and the general ledger for each applicable period.

- Errors related to inventory usage that arose from variances identified between actual and recorded inventory values following the Company s conducting physical inventory counts to test the accuracy of the recorded inventory data.

- Errors related to hedging activities for foreign currency transactions that arose from mechanical errors in accumulating spreadsheet data as well as the recording of net unrealized losses on foreign exchange hedges that had previously been excluded from the consolidated statement of operations.

- Errors related to foreign income tax expense that relate to a previously identified adjustment related to periods prior to 2004 but that was not deemed material to those periods.

The deficiencies and errors described above were identified during the Company s preparation of its financial statements and in reviewing the effectiveness of the design and operation of its disclosure controls and procedures as of and for the period ended September 30, 2006. The Company performed additional detailed transaction reviews and control activities in connection with reconciling and compiling its financial records. Such procedures were undertaken in order to confirm that the Company s financial statements for the three months and nine months ended September 30, 2006 were free of material errors.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

As a result of this effort, the Company identified several reconciliation issues and accounting shortcomings, including:

- Some accounts had not been adequately reconciled in accordance with the Company s policies and procedures.

- Certain accounts contained unreconciled differences that had not been timely resolved in accordance with the Company s policies and procedures, including credits for the benefit of customers and cash that had not been applied to customer accounts or the related accounts receivable.

- Certain fixed assets that had been placed in service remained recorded in construction-in-progress (CIP) resulting in a failure to depreciate those items beginning when they were placed in service.

- Some service contracts had not been fully integrated and reflected in the Company s new ERP system.

- Certain tax-exempt customers were charged sales tax in error and certain customers were inadvertently not billed for sales tax on their purchases.

The Company also identified variances in recorded versus actual inventory values. The Company conducted physical inventory counts during the third quarter of 2006 to test the accuracy of the recorded inventory data. As a result, the Company identified variances between the inventory data in the Company s records compared to the inventory values determined through the physical counts. The Company determined that the discrepancy in recorded versus actual third quarter inventory values resulted from:

- Errors or corruption in the data migrated from the Company s legacy accounting systems to the new ERP system implemented in the second quarter of 2006;

- Errors in processing, shipping and properly recording orders by the Company s third party logistics and warehousing provider; and

- Failure to properly record certain orders that were shipped directly from the Company s third-party suppliers to the end users.

As a result, the Company concluded that the variances within the cost of sales account should be written off in order to fairly state the inventory value in the consolidated financial statements.

The following table shows the impact of the correction of all errors on income (loss) available to common stockholders for the full year ended December 31, 2004, for each calendar quarter in 2005, for the full year ended December 31, 2005 and for the first two quarters of 2006, as well as the cumulative impact of prior-period errors on retained earnings at December 31, 2003. The tax effect of the correction of these errors on each restated period was either minimal or nil.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

	Accumulated Deficit in Earnings	Effect of Restatement on Income (Loss) Available to Common Stockholders							
		Year Ended	Quarter Ended				Year Ended	Quarter Ended	
	December 31, 2003 (amounts in $000s)	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005	March 31, 2006	June 30, 2006
Previously reported	$ (47,442)	$ 1,027	$ 783	$ 855	$ 749	$ 6,017	$ 8,404	$ (1,244)	$ (8,944)
Adjustments:									
Credit memos		10	(19)	(79)	(164)	(101)	(363)	(251)	(978)
Royalty income/expense		253	5	(17)	(17)	(293)	(322)	13	81
Recognition of warranty and training revenue	32	220	11	(246)	13	33	(189)	121	(101)
Stock issuance costs						211	211		
Prepaid materials reconciliation				(29)	(4)	(64)	(97)	(201)	(772)
Depreciation of fixed assets		(4)	(19)	(37)	(42)	(63)	(161)	(106)	(109)
Accrual for professional services						(15)	(15)	(247)	
Inventory usage						22	22		(412)
Hedging activities									(256)
Other		(20)	20	44	(2)	(16)	46	(86)	76
Tax provision	(191)					191	191	53	(113)
Total adjustments:	(159)	459	(2)	(364)	(216)	(95)	(677)	(704)	(2,584)
Restated	$ (47,601)	$ 1,486	$ 781	$ 491	$ 533	$ 5,922	$ 7,727	$ (1,948)	$ (11,528)
Net income (loss) available to common stockholders per share diluted (as previously reported)		$ 0.07	$ 0.05	$ 0.05	$ 0.05	$ 0.32	$ 0.53	$ (0.08)	$ (0.55)
Effect of restatement		0.04	(0.00)	(0.02)	(0.02)	(0.00)	(0.05)	(0.05)	(0.16)
Net income (loss) available to common stockholders per share diluted (restated)		$ 0.11	$ 0.05	$ 0.03	$ 0.03	$ 0.32	$ 0.48	$ (0.13)	$ (0.71)

As shown in this table, the errors affecting income (loss) available to the common stockholders reflected in the restated financial information primarily include:

- $(1,582) in the aggregate of errors related to credit memoranda issued to customers, of which $(1,229) was attributable to the 2006 periods, $(363) was attributable to the 2005 periods (mainly the third and fourth quarters of 2005) and a $10 credit was attributable to 2004;

Such credit memoranda were issued to customers mainly for product returns or pricing adjustments as well as for changes to service contracts and freight-related matters. Error corrections related to credit memoranda were posted to revenue or the related cost of sales in the period to which they related in carrying out the restatement;

- $25 in the aggregate of errors related to the timing of recognition of royalty income and expense, of which $94 of expense was attributable to the 2006 periods, $(322) was attributable to the 2005 periods (mainly the fourth quarter of 2005) and $253 was attributable to 2004;

These errors arose from the timing of the recording of and misclassification of such revenue and cost of sales;

- $51 in the aggregate of errors related to the recognition of warranty and training revenue, of which $20 was attributable to the 2006 periods, $(189) was attributable to the 2005 periods (mainly the second quarter of 2005) and $220 was attributable to 2004;

12

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

These errors arose from the incorrect timing of recording such revenue to the appropriate period;

- $211 of errors related to securities issuance costs, all which was attributable to the fourth quarter of 2005;

These errors arose because such costs were originally expensed rather than charged to additional paid-in capital and applied against the net proceeds of sale of the related securities;

- $131 in the aggregate of errors related to tax adjustments, of which $191 related to foreign income tax provisions related to the fourth quarter of 2005, and $53 and $(113) related to the net consolidated tax effect of the restatement adjustments for the first and second quarters of 2006, respectively.

These errors relate to an amount previously identified that related to periods prior to 2004 which was originally not deemed material to those periods. Such adjustments have been included in the restated amounts herein for the applicable period;

- $(1,070) in the aggregate of errors related to prepaid materials, of which $(973) was attributable to the 2006 periods and $(97) was attributable to the 2005 periods;

These errors arose from the incomplete reconciliation of prepaid materials between the sub-ledger and the general ledger for each period;

- $(380) in the aggregate of errors related to depreciation expense, of which $(215) was attributable to the 2006 periods, $(161) was attributable to the 2005 periods and $(4) was attributable to 2004;

These errors related to depreciation expense for assets placed in service but which remained recorded in the Company s CIP accounts;

- $(262) of errors related to accrued professional services, of which $(247) was attributable to the 2006 period and $(15) was attributable to 2005 periods;

These errors arose from the correction of the treatment of previously incurred accounting fees;

- $(390) of errors related to inventory, which was primarily attributable to the second quarter of 2006;

These errors arose from variances identified between actual and recorded inventory values as a result of the Company s conduct of physical inventory counts to test the accuracy of the recorded inventory data;

- $(256) of errors related to hedging activities on foreign currency transactions, all of which was attributable to the second quarter of 2006;

These errors arose from mechanical errors in accumulating spreadsheet data as well as the recording of net unrealized losses on foreign exchange hedges which had previously been excluded from the consolidated statement of operations; and

- $16 in the aggregate of errors for other adjustments related to cost of sales, selling, general and administrative expenses, other income and expense and taxes, of which $(10) was attributable to the 2006 periods, $46 was attributable to the 2005 periods and $(20) was attributable to 2004;

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact of these adjustments on the consolidated statements of operations for the years ended December 31, 2004 and 2005 is as follows:

Consolidated Statement of Operations	2004 Year Ended As Previously Reported December 31 (amounts in $000s)	Restatement Adjustments	Restated	2005 Year Ended As Previously Reported December 31	Restatement Adjustments	Restated
Revenue:						
Products	$ 83,976	$ 231	$ 84,207	$ 100,396	$ (615)	$ 99,781
Services	41,403		41,403	39,274	23	39,297
Total revenue	125,379	231	125,610	139,670	(592)	139,078
Cost of sales:						
Products	43,898	(234)	43,664	49,973	359	50,332
Services	25,390		25,390	26,567	17	26,584
Total cost of sales	69,288	(234)	69,054	76,540	376	76,916
Gross profit	56,091	465	56,556	63,130	(968)	62,162
Operating expenses:						
Selling, general and administrative	39,411	4	39,415	40,382	(38)	40,344
Research and development	10,474		10,474	12,176		12,176
Severance and restructuring	605		605	1,227		1,227
Total operating expenses	50,490	4	50,494	53,785	(38)	53,747
Income from operations	5,601	461	6,062	9,345	(930)	8,415
Interest and other expense, net	1,979	2	1,981	762	(62)	700
Income before provision for (benefit from) income taxes	3,622	459	4,081	8,583	(868)	7,715
Provision for (benefit from) income taxes	1,061		1,061	(1,500)	(191)	(1,691)
Net income	2,561	459	3,020	10,083	(677)	9,406
Preferred stock dividends	1,534		1,534	1,679		1,679
Income available to common shareholders	$ 1,027	$ 459	$ 1,486	$ 8,404	$ (677)	$ 7,727
Net income available to common stockholders per share basic	$ 0.08	$ 0.03	$ 0.11	$ 0.56	$ (0.04)	$ 0.52
Net income available to common stockholders per share diluted	$ 0.07	$ 0.04	$ 0.11	$ 0.53	$ (0.05)	$ 0.48

The changes to the consolidated statements of operations reflected in the table above include:

- For the year ended December 31, 2004, the changes arising from the restatement primarily relate to the following:

- Revenue increased by $231, or 0.2%, for the year. The increase in revenue primarily relates to a $220 adjustment of amortization for warranty and training revenue.

- Cost of sales decreased by $234, or 0.3%. This decrease primarily relates to a $254 adjustment of royalty expense that was overstated in 2004 and understated in 2005.

- As a result of these changes, net income increased by $459, or 44.7%.

- For the year ended December 31, 2005, the changes arising from the restatement are discussed following the next table.

14

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact on the condensed consolidated statements of operations each quarterly period in 2005 as a result of the restatement is as follows:

	2005 Quarter Ended											
d Statement of Operations	**As Previously Reported March 31**	**Restatement Adjustments**	**Restated**	**As Previously Reported June 30**	**Restatement Adjustments**	**Restated**	**As Previously Reported September 30**	**Restatement Adjustments**	**Restated**	**As Previously Reported December 31**	**Restatement Adjustments**	
Revenue:												
Products	$ 20,246	$ (8)	$ 20,238	$ 22,657	$ (304)	$ 22,353	$ 23,005	$ (131)	$ 22,874	$ 34,488	$ (172)	$ 34,316
Services	10,186		10,186	10,112	(21)	10,091	9,319	(20)	9,299	9,657	64	9,721
Total revenue	30,432	(8)	30,424	32,769	(325)	32,444	32,324	(151)	32,173	44,145	(108)	44,037
Cost of sales:												
Products	10,298	(23)	10,275	12,231	46	12,277	10,909	21	10,930	16,535	315	16,850
Services	7,129	2	7,131	6,193	4	6,197	6,562	6	6,568	6,683	5	6,688
Total cost of sales	17,427	(21)	17,406	18,424	50	18,474	17,471	27	17,498	23,218	320	23,538
Gross profit	13,005	13	13,018	14,345	(375)	13,970	14,853	(178)	14,675	20,927	(428)	20,499
Operating expenses:												
Selling, general and administrative	8,696	14	8,710	9,900	37	9,937	9,917	43	9,960	11,869	(132)	11,737
Research and development	2,675		2,675	2,701		2,701	3,429		3,429	3,371		3,371
Severance and restructuring				7		7	42		42	1,178		1,178
Total operating expenses	11,371	14	11,385	12,608	37	12,645	13,388	43	13,431	16,418	(132)	16,286
Income from operations	1,634	(1)	1,633	1,737	(412)	1,325	1,465	(221)	1,244	4,509	(296)	4,213
Interest and other expense, net	345	1	346	185	(48)	137	204	(5)	199	28	(10)	18
Income before provision for (benefit from) income taxes	1,289	(2)	1,287	1,552	(364)	1,188	1,261	(216)	1,045	4,481	(286)	4,195
Provision for (benefit from) income taxes	94		94	253		253	100		100	(1,947)	(191)	(2,138)
Net income	1,195	(2)	1,193	1,299	(364)	935	1,161	(216)	945	6,428	(95)	6,333
Preferred stock dividends	412		412	444		444	412		412	411		411
Income available to common shareholders	$ 783	$ (2)	$ 781	$ 855	$ (364)	491	$ 749	(216)	$ 533	$ 6,017	$ (95)	$ 5,922
Net income available to common stockholders per share basic	$ 0.05	$	$ 0.05	$ 0.06	$ (0.03)	$ 0.03	$ 0.05	$ (0.01)	$ 0.04	$ 0.40	$ (0.01)	$ 0.39
Net income available to common stockholders per share diluted	$ 0.05	$	$ 0.05	$ 0.05	$ (0.02)	$ 0.03	$ 0.05	$ (0.02)	$ 0.03	$ 0.32	$	$ 0.32

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The following is a summary of the changes to the consolidated statements of operations reflected in the table above.

- For the year ended December 31, 2005, the changes arising from the restatement primarily relate to the following:

- Revenue decreased by $8 for the first quarter of 2005, by $325 (1.0%) for the second quarter, by $151 (0.5%) for the third quarter and by $108 (0.2%) for the quarter ended December 31, 2005. The decreases in revenue during the third and fourth quarters of 2005 primarily relate to adjustments for credit memoranda as discussed above that were applicable to those periods. These amounted to $153 in the third quarter and $80 in the fourth quarter. The decrease in revenue during the second quarter primarily relates to a $246 adjustment related to amortization for warranty and training revenue and $79 of adjustments for credit memoranda for customers that were applicable to that period.

- Cost of sales increased by $320 (1.4%) for the fourth quarter and changed nominally in the other quarters. The increase in cost of sales during the fourth quarter primarily relates to a $293 adjustment for royalties that had been incorrectly expensed in 2004.

- Operating expenses decreased by $132 (0.8%) during the fourth quarter, increased by $37 (0.3%) and $43 (0.3%) for the second and third quarters, respectively, and increased nominally for the first quarter. The decrease during the fourth quarter primarily relates to an adjustment for stock issuance costs of $211, partially offset by additional depreciation being recorded for assets placed into service of $63. The second-quarter and third-quarter increases totaling $80 primarily relate to additional depreciation being recorded for assets placed in service.

- The nominal changes to interest and other expense, net relate to an increase in interest income in the affected quarters.

- The income tax benefit recorded in the fourth quarter relates to the correction of a foreign tax provision in 2005 which was applicable to prior periods.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact on the condensed consolidated statements of operations for the first and second quarters of 2006 as a result of the restatement is as follows:

Consolidated Statement of Operations	2006 Quarter Ended As Previously Reported March 31	Restatement Adjustments	Restated	As Previously Reported June 30	Restatement Adjustments	Restated
Revenue:						
Products	$ 24,216	$ 36	$ 24,252	$ 19,570	$ (637)	$ 18,933
Services	9,311	80	9,391	8,414	(216)	8,198
Total revenue	33,527	116	33,643	27,984	(853)	27,131
Cost of sales:						
Products	12,526	484	13,010	13,115	1,375	14,490
Services	6,986	42	7,028	6,798	7	6,805
Total cost of sales	19,512	526	20,038	19,913	1,382	21,295
Gross profit	14,015	(410)	13,605	8,071	(2,235)	5,836
Operating expenses:						
Selling, general and administrative	9,763	294	10,057	10,695	215	10,910
Research and development	3,257		3,257	2,974		2,974
Severance and restructuring	1,638		1,638	2,310	(30)	2,280
Total operating expenses	14,658	294	14,952	15,979	185	16,164
Loss from operations	(643)	(704)	(1,347)	(7,908)	(2,420)	(10,328)
Interest and other expense, net	114	53	167	107	51	158
Loss before provision for (benefit from) income taxes	(757)	(757)	(1,514)	(8,015)	(2,471)	(10,486)
Provision for (benefit from) income taxes	76	(53)	23	(74)	113	39
Net loss	(833)	(704)	(1,537)	(7,941)	(2,584)	(10,525)
Preferred stock dividends	411		411	1,003		1,003
Loss available to common shareholders	$ (1,244)	$ (704)	$ (1,948)	$ (8,944)	$ (2,584)	$ (11,528)
Net loss available to common stockholders per share basic	$ (0.08)	$ (0.05)	$ (0.13)	$ (0.55)	$ (0.16)	$ (0.71)
Net loss available to common stockholders per share diluted	$ (0.08)	$ (0.05)	$ (0.13)	$ (0.55)	$ (0.16)	$ (0.71)

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

A summary of the changes to the condensed consolidated statements of operations reflected in the table above include:

- For the first and second quarters of 2006, the changes arising from the restatement primarily relate to the following:

- Revenue increased $116, or 0.3%, for the quarter ended March 31, 2006 but decreased by $853, or 3.1%, for the quarter ended June 30, 2006. The second-quarter decrease primarily relates to $911 of adjustments for credit memoranda as discussed above that were applicable to the second quarter, a $124 adjustment to correct royalty income from a customer, and a $101 adjustment related to the recognition of warranty and training revenue, partially offset by $282 of other adjustments. The increase in revenue for the first quarter primarily relates to $121 of adjustments related to the recognition of warranty and training revenue, $59 of adjustments related to royalty income and $160 of other adjustments, partially offset by $224 of adjustments for credit memoranda that were applicable to the first quarter.

- Cost of sales increased by $526, or 2.7%, for the quarter ended March 31, 2006 and by $1,382, or 6.9%, for the quarter ended June 30, 2006. The increase in cost of sales during the second quarter primarily relates to $772 of reconciliation adjustments between account sub-ledgers and the general ledger pertaining to prepaid materials, a $412 adjustment related to a reduction for in-transit inventory, a $256 adjustment for foreign exchange transactions that were applicable to the second quarter and $99 of adjustments for credit memoranda that were applicable to the first quarter, partially offset by $205 of adjustments related to royalty expense. The first-quarter increase in cost of sales primarily relates to a $201 reconciliation adjustment related to prepaid materials and $207 of other adjustments

- Operating expenses increased by $294, or 2.0%, for the quarter ended March 31, 2006, and by $185, or 1.2%, for the quarter ended June 30, 2006. The second-quarter increase in operating expenses primarily relates to a $106 adjustment to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement. The first-quarter increase in operating expenses primarily relates to a $248 adjustment to record an increase in professional fees and a $106 adjustment to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement.

- Interest and other expense, net increased by $53, or 46.5%, for the quarter ended March 31, 2006 and by $51, or 47.7%, for the quarter ended June 30, 2006. The first-quarter and second quarter increases relate to adjustments to record interest income in the correct period.

- The change in the income tax provision during the first and second quarters represents an adjustment to the state and foreign income tax provision due to computational errors in tax provision calculations.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact of the restatement on the condensed consolidated balance sheets as of December 31, 2004 and as of each quarter end in 2005 is as follows:

Consolidated Balance Sheet	2004 As Previously Reported December 31 (amounts in $000s)	Restatement Adjustments	Restated	2005 As Previously Reported March 31	Restatement Adjustments	Restated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 26,276	$ 229	$ 26,505	$ 26,507	$ 295	$ 26,802
Accounts receivable	22,209	(13)	22,196	19,871	18	19,889
Inventories	9,512	(18)	9,494	8,505		8,505
Prepaid expenses and other current assets	5,278	(50)	5,228	7,735	(295)	7,440
Deposits	229	(229)				
Total current assets	63,504	(81)	63,423	62,618	18	62,636
Property and equipment, net	9,500	71	9,571	9,737	(29)	9,708
Intangible assets, net	10,224	584	10,808	10,247		10,247
Goodwill	45,135		45,135	44,978		44,978
Restricted cash	1,200		1,200	1,200		1,200
Lease receivable	365		365			
Other assets, net	1,568	(584)	984	1,423		1,423
	$ 131,496	$ (10)	$ 131,486	$ 130,203	$ (11)	$ 130,192
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Current portion of long-term debt	$ 180	$ 6	$ 186	$ 190	$ 6	$ 196
Accounts payable	6,937	35	6,972	6,848		6,848
Accrued liabilities	13,447	(112)	13,335	10,570	(65)	10,505
Customer deposits	819		819	793		793
Deferred revenue	13,797	(225)	13,572	13,991	(236)	13,755
Total current liabilities	35,180	(296)	34,884	32,392	(295)	32,097
Long-term debt, less current portion	3,745	36	3,781	3,645	29	3,674
Convertible subordinated debentures	22,704		22,704	22,604		22,604
Other liabilities	1,607	(50)	1,557	1,457	(43)	1,414
	63,236	(310)	62,926	60,098	(309)	59,789
Preferred stock	15,196		15,196	15,195		15,195
Stockholders equity:						
Common stock	14		14	15		15
Additional paid-in capital	97,859	(59)	97,800	99,714	(59)	99,655
Deferred compensation	(45)		(45)	(949)		(949)
Treasury stock, at cost; 8 shares at December 31, 2004 and March 31, 2005	(68)	59	(9)	(68)	59	(9)
Accumulated deficit in earnings	(44,881)	300	(44,581)	(43,686)	298	(43,388)
Accumulated other comprehensive incom (loss)	185		185	(116)		(116)
Total stockholders equity	53,064	300	53,364	54,910	298	55,208
	$ 131,496	$ (10)	$ 131,486	$ 130,203	$ (11)	$ 130,192

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

Consolidated Balance Sheet	2005 As Previously Reported June 30 (amounts in $000s)	Restatement Adjustments	Restated	As Previously Reported September 30	Restatement Adjustments	Restated	As Previously Reported December 31	Restatement Adjustments	Restated
ASSETS									
Current assets:									
Cash and cash equivalents	$ 28,121	$ 243	$ 28,364	$ 25,991	$ 242	$ 26,233	$ 24,112	$ 216	$ 24,328
Accounts receivable	19,294	(61)	19,233	21,631	(225)	21,406	33,172	(406)	32,766
Inventories	9,319		9,319	13,417		13,417	13,960	850	14,810
Prepaid expenses and other current assets	8,979	(224)	8,755	10,195	(221)	9,974	9,307	(32)	9,275
Deposits							216	(216)	
Deferred tax assets							2,500		2,500
Total current assets	65,713	(42)	65,671	71,234	(204)	71,030	83,267	412	83,679
Property and equipment, net	9,256	(67)	9,189	10,449	(110)	10,339	12,166	(174)	11,992
Intangible assets, net	9,655		9,655	9,201		9,201	7,990	587	8,577
Goodwill	44,795		44,795	44,790		44,790	44,747		44,747
Restricted cash	1,200		1,200	1,200		1,200	1,200		1,200
Lease receivable									
Other assets, net	1,164		1,164	852		852	1,572	(587)	985
	$ 131,783	$ (109)	$ 131,674	$ 137,726	$ (314)	$ 137,412	$ 150,942	$ 238	$ 151,180
LIABILITIES AND STOCKHOLDERS EQUITY									
Current liabilities:									
Current portion of long-term debt	$ 190	$ 6	$ 196	$ 200	$ 6	$ 206	$ 200	$ 7	$ 207
Accounts payable	5,153		5,153	7,866		7,866	10,949	735	11,684
Accrued liabilities	9,025	(45)	8,980	9,996	(24)	9,972	12,174	142	12,316
Customer deposits	927		927	2,040		2,040	1,945		1,945
Deferred revenue	12,275	10	12,285	12,008		12,008	13,768	(43)	13,725
Total current liabilities	27,570	(29)	27,541	32,110	(18)	32,092	39,036	841	39,877
Long-term debt, less current portion	3,645	27	3,672	3,545	26	3,571	3,545	23	3,568
Convertible subordinated debentures	22,604		22,604	22,604		22,604	22,604		22,604
Other liabilities	1,063	(41)	1,022	1,018	(40)	978	1,039	(38)	1,001
	54,882	(43)	54,839	59,277	(32)	59,245	66,224	826	67,050
Preferred stock	15,211		15,211	15,226		15,226	15,242		15,242
Stockholders equity:									
Common stock	15		15	15		15	15		15
Additional paid-in capital	106,697	(59)	106,638	107,041	(62)	106,979	106,883	(353)	106,530
Deferred compensation	(1,774)		(1,774)	(1,647)		(1,647)	(1,461)		(1,461)
Treasury stock, at cost; 8 shares at June 30, 2005, 10 shares at September 30, 2005 and 12 shares at December 31, 2005	(68)	59	(9)	(71)	62	(9)	(154)	142	(12)
Accumulated deficit in earnings	(42,387)	(66)	(42,453)	(41,226)	(282)	(41,508)	(34,798)	(377)	(35,175)
Accumulated other comprehensive income (loss)	(793)		(793)	(889)		(889)	(1,009)		(1,009)
Total stockholders equity	61,690	(66)	61,624	63,223	(282)	62,941	69,476	(588)	68,888
	$ 131,783	$ (109)	$ 131,674	$ 137,726	$ (314)	$ 137,412	$ 150,942	$ 238	$ 151,180

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The changes to the consolidated balance sheets reflected in the table above as a result of the restatement are summarized below.

- As of December 31, 2004, the changes arising from the restatement primarily relate to the following:

- Cash and cash equivalents increased by $229, or 0.9%, as a result of a reclassification of deposits in the balance sheet to correct an error in recording unrestricted cash in deposits.

- Intangible assets, net increased by $584, or 5.7%, as a result of a reclassification of certain other assets in the balance sheet to conform to the current presentation.

- Accrued liabilities decreased by $112, or 0.8%, as of December 31, 2004. This decrease relates to a $253 adjustment of the royalty expense which was overstated in 2004 and understated in 2005, offset in part by a $191 adjustment to increase the foreign tax liability.

- Deferred revenue decreased by $225, or 1.6%, as of December 31, 2004. This decrease relates to a $225 adjustment of amortization for warranty and training revenue.

- Treasury stock increased by $59, or 86.8%, as of December 31, 2004 as the result of a correction of an error for the incorrect recording of treasury stock at fair value in lieu of cost.

- Other changes to the consolidated balance sheet line items at December 31, 2004 were not material, individually or in the aggregate. Such changes include miscellaneous adjustments to inventory, additional depreciation expense for items placed in service which had not been depreciated prior to restatement and miscellaneous reconciliation adjustments.

- As of each quarter end in 2005, the changes arising from the restatement primarily relate to the following:

- Primarily as a result of reclassifications of amounts in the balance sheet, the following changes were noted:

- Cash and cash equivalents increased by $295, or 1.1%, as of March 31, 2005 creating a decrease of $295 in prepaid expenses and other current assets as a result of a previous error in recording unrestricted cash in prepaid expenses and other current assets. Prepaid expenses and other current assets decreased, in total, by $295, or 3.8% as of March 31, 2005.

- Cash and cash equivalents increased by $243, or 0.9%, as of June 30, 2005 while prepaid expenses and other current assets decreased, in total, by $224, or 2.5%, as of June 30, 2005.

- Cash and cash equivalents increased by $242, or 0.9%, as of September 30, 2005 while prepaid expenses and other current assets decreased, in total, by $221, or 2.2%, as of September 30, 2005.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

- Cash and cash equivalents increased by $216, or 0.9%, as of December 31, 2005 while deposits decreased by $216, or 100%, as of December 31, 2005. Intangible assets increased $587, or 7.3%, and other assets decreased $587, or 37.3% as of December 31, 2005.

- The increase in accounts receivable as of March 31, 2005 primarily relates to an adjustment for recognition of warranty and training revenue while the decreases in accounts receivable as of June 30, 2005, September 30, 2005 and December 31, 2005 primarily relate to adjustments for credit memoranda discussed above that were applicable to each period.

- Inventory increased by $850 (6.1%) as of December 31, 2005 only. The increase in inventory as of December 31, 2005 primarily relates to the $716 accrual for inventory in transit at year end where title had transferred.

- Property and equipment, net decreased by $174 or 1.4% as of December 31, 2005 for depreciation associated with assets placed into service in that period.

- Accounts payable increased $735, or 6.7%, as of December 31, 2005 primarily to reflect the $716 liability associated with the in-transit inventory recorded.

- Deferred revenue decreased by $236 (1.7%) as of March 31, 2005 and changed by nominal amounts as of the last day of the second and fourth quarters. The first-quarter decrease in deferred revenue relates to a $236 adjustment to recognition of warranty and training revenue.

- Additional paid-in capital decreased by $59 (0.1%) as of March 31, 2005 and June 30, 2005, decreased by $62 (0.1%) as of September 30, 2005 and decreased by $353 (0.3%) as of December 31, 2005. The decrease at each date was the result of a correction of an error for the incorrect recording of treasury stock at fair value in lieu of cost. Additionally, at December 31, 2005, the decrease included a $211 adjustment for the issuance of securities which were charged to additional paid-in capital as discussed above. This change for the issuance of securities will be reflected in all future balance sheet restatements contained herein.

- Treasury stock increased by $59 (86.8%) as of March 31, 2005 and June 30, 2005, increased by $62 (87.3%) as of September 30, 2005 and increased by $142 (92.2%) as of December 31, 2005 as the result of a correction of an error in recording treasury stock as discussed above.

- Other changes to the balance sheet line items for the 2005 periods were not material, individually or in the aggregate. Such changes include miscellaneous adjustments to inventory, additional depreciation expense for items placed in service which had not been depreciated prior to restatement.

The segment information contained in Note 24 to the Company s Consolidated Financial Statements included in Form 10-K 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 the 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. The corrections were required due to previous calculation errors in compiling the appropriate data by geographic region.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

	December 31, 2005 (As Previously Reported)	Restatement Adjustments	December 31, 2005 (restated)
Assets:			
North America	$ 102,891	$ (26,026)	$ 76,865
Germany	29,624	(15,268)	14,356
Other Europe	42,770	13,004	55,774
Asia	20,426		20,426
Subtotal	195,711	(28,290)	167,421
Inter-company elimination	(44,770)	28,529	(16,241)
Total assets	$ 150,941	$ 239	$ 151,180

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact of the restatement on the condensed consolidated balance sheets as of March 31, 2006 and June 30, 2006 is as follows:

Consolidated Balance Sheet	2006 As Previously Reported March 31 (amounts in $000s)	Restatement Adjustments	Restated	As Previously Reported June 30	Restatement Adjustments	Restated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 26,398	$ 216	$ 26,614	$ 12,652	$ 348	$ 13,000
Accounts receivable	29,735	(418)	29,317	31,582	(1,359)	30,223
Inventories	16,410	(66)	16,344	22,616	(363)	22,253
Deferred tax assets	2,500		2,500	2,500		2,500
Restricted cash, current portion					1,200	1,200
Prepaid expenses and other current assets	9,910	(526)	9,384	10,580	(1,126)	9,454
Asset held for sale				2,827	627	3,454
Total current assets	84,953	(794)	84,159	82,757	(673)	82,084
Property and equipment, net	13,605	(281)	13,324	11,911	(911)	11,000
Intangible assets, net	7,949		7,949	7,300		7,300
Goodwill	44,843		44,843	45,328		45,328
Restricted cash, long-term	1,200		1,200	1,200	(1,200)	
Other assets, net	837		837	765		765
	$ 153,387	$ (1,075)	$ 152,312	$ 149,261	$ (2,784)	$ 146,477
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Current portion of long-term debt	$ 210	7	$ 217	$ 3,645	7	$ 3,652
Accounts payable	12,525		12,525	15,544	519	16,063
Accrued liabilities	12,143	343	12,486	10,785	765	11,550
Customer deposits	1,353		1,353	3,089	(125)	2,964
Deferred revenue	14,198	(119)	14,079	12,561	18	12,579
Total current liabilities	40,429	231	40,660	45,624	1,184	46,808
Long-term debt, less current portion	3,435	21	3,456		20	20
Convertible subordinated debentures	22,604		22,604	22,354		22,354
Other liabilities	1,060	(36)	1,024	1,117	(35)	1,082
	67,528	216	67,744	69,095	1,169	70,264
Preferred stock	15,257		15,257			
Stockholders equity:						
Common stock	16		16	18		18
Additional paid-in capital	111,344	(4,534)	106,810	124,021	(657)	123,364
Deferred compensation	(4,127)	4,127				-
Treasury stock, at cost; 17 shares at March 31, 2006 and 25 shares at June 30, 2006	(213)	196	(17)	(394)	369	(25)
Accumulated deficit in earnings	(35,631)	(1,080)	(36,711)	(43,573)	(3,665)	(47,238)
Accumulated other comprehensive income (loss)	(787)		(787)	94		94
Total stockholders equity	70,602	(1,291)	69,311	80,166	(3,953)	76,213
	$ 153,387	$ (1,075)	$ 152,312	$ 149,261	$ (2,784)	$ 146,477

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The changes to the balance sheets reflected in the table above as a result of the restatement are summarized below.

- As of March 31, 2006 and June 30, 2006, the changes arising from the restatement primarily relate to the following:

- Cash and cash equivalents increased by $216, or 0.8%, as of March 31, 2006, and by $348, or 2.8%, as of June 30, 2006. As noted below within prepaid expenses and other current assets, these increases relate to the reclassification of certain cash amounts in the balance sheet.

- Accounts receivable decreased by $418, or 1.4%, as of March 31, 2006, and by $1,359, or 4.3%, as of June 30, 2006. In each period, the decrease primarily relates to adjustments for credit memoranda as discussed above.

- Prepaid expenses and other current assets decreased by $526, or 5.3%, as of March 31, 2006 and by $1,126, or 10.6%, as of June 30, 2006. The second-quarter decrease in prepaid expenses and other current assets primarily relates to $563 of reconciliation adjustments related to prepaid materials, $278 of adjustments related to the reclassification of certain amounts held on deposit that were erroneously recorded in prepaid expenses and other current assets to cash and cash equivalents as discussed above, a $160 adjustment related to the reclassification of software costs from prepaid expenses to construction in progress (CIP), and a $125 adjustment to correct the accrual for royalty income at June 30, 2006. The first-quarter decrease in prepaid expenses and other current assets primarily relates to $201 of reconciliation adjustments related to prepaid materials and a $216 adjustment related to the reclassification of certain amounts held on deposit to cash and cash equivalents.

- Inventories decreased by $66, or 0.4%, as of March 31, 2006 and by $363, or 1.6%, as of June 30, 2006. The decrease in the second quarter is primarily a result of physical count variances in in-transit inventories, while the decrease in the first quarter related to an adjustment for credit memoranda as discussed above.

- Assets held for sale, net at March 31, 2006 were not affected by the restatement but increased by $627, or 22.2%, as of June 30, 2006. The June 30, 2006 increase in the assets held for sale relates to a reclassification of an additional $627 of assets related to the Grand Junction facility from property and equipment to assets held for sale on the balance sheet at June 30, 2006.

- Property and equipment decreased by $281, or 2.1%, as of March 31, 2006 and by $911, or 7.6%, as of June 30, 2006. The second-quarter decrease in property and equipment primarily relates to the $630 reclassification adjustment discussed immediately above and $279 of adjustments to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement. The first-quarter decrease in property and equipment relates primarily to adjustments to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

- Accounts payable did not change as of March 31, 2006 and increased by $519, or 3.5%, as of June 30, 2006. The second-quarter increase in accounts payable is the result of $519 of reconciliation adjustments between the accounts payable sub-ledgers and the general ledger as arising from the Company s conversion to its new ERP system.

- Accrued liabilities increased by $343, or 2.8%, as of March 31, 2006 and by $765, or 7.1%, as of June 30, 2006. The second-quarter increase primarily relates to a $268 adjustment to properly record a net unrealized loss on foreign currency hedging contracts, a $60 adjustment for income taxes, a $126 adjustment for royalty and relocation expenses; and the $207 adjustment for professional fees accrued in the first quarter of 2006. The first-quarter of 2006 increase primarily relates to a $207 adjustment for professional fees for the 2005 financial statement audit partially offset by a tax credit of $53.

- Additional paid-in capital decreased $404 as of March 31, 2006 to reflect $211 of the stock issuance costs incurred in 2005 as discussed above and $193 as the result of a correction of an error for the incorrect recording of treasury stock at fair value in lieu of cost. Additional paid-in capital decreased $662 as of June 30, 2006 due to the charge of stock issuance cost, an adjustment to correct a duplicate posting to the additional paid-in-capital account and $374 as the result of a correction of an error in recording treasury stock as discussed above.

- Other changes to the balance sheet line items were not material, individually or in the aggregate. Such changes included a balance-sheet reclassification for unrestricted cash, miscellaneous adjustments to inventory, adjustments to amortization for warranty and training revenue and an adjustment to correct the processing of payments received for restricted stock.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact of the restatement on the consolidated statement of cash flows for the year ended December 31, 2004 is as follows:

Consolidated Statement of Cash Flows	Year Ended As Previously Reported December 31, 2004 (amounts in $000s)	Restatement Adjustments	Restated
Cash flows from operating activities:			
Net income	$ 2,561	$ 459	$ 3,020
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,956		6,956
Bad debt benefit	(216)		(216)
Adjustments for inventory reserve	(310)		(310)
Stock-based compensation	634		634
Non-cash payment of interest on employee note with Common Stock	(4)		(4)
Loss on disposition of property and equipment	231		231
Changes in operating accounts:			
Deposits	338	(338)	
Accounts receivable	1,537	13	1,550
Lease receivable	21		21
Inventories	(189)	(60)	(249)
Prepaid expenses and other current assets	(2,908)	50	(2,858)
Other assets	316		316
Accounts payable	(448)	35	(413)
Accrued liabilities	(2,849)	(304)	(3,153)
Customer deposits	48		48
Deferred revenue	(2,340)	(193)	(2,533)
Other liabilities	(450)	(2)	(452)
Net cash provided by operating activities	2,928	(340)	2,588
Cash flows used in investing activities:			
Purchases of property and equipment	(781)		(781)
Additions to license and patent costs	(417)		(417)
Software development costs	(737)		(737)
Net cash used in investing activities	(1,935)		(1,935)
Cash flows from financing activities:			
Stock options, stock purchase plan and restricted stock proceeds	4,898	1	4,899
Repayment of long-term debt	(165)		(165)
Payments under obligation to former stockholders of 3D Systems S.A.	(852)		(852)
Payment of preferred stock dividends	(1,420)		(1,420)
Payment of accrued liquidated damages	(837)		(837)
Stock issuance costs	(428)		(428)
Payment to OptoForm minority shareholder	(49)		(49)
Net cash provided by financing activities	1,147	1	1,148
Effect of exchange rate changes on cash	182	14	196
Net increase in cash and cash equivalents	2,322	(325)	1,997
Cash and cash equivalents, beginning of period	23,954	554	24,508
Cash and cash equivalents, end of period	$ 26,276	$ 229	$ 26,505

The changes for the year ended December 31, 2004 displayed in the table above are the result of the restatement adjustments previously described in this Note 2.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact of the restatement on the condensed consolidated statements of cash flows for the three, six, nine and twelve month periods ended March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005, respectively, is as follows:

Consolidated Statement of Cash Flows	Three Months Ended As Previously Reported March 31, 2005 (amounts in $000s)	Restatement Adjustments	Restated	Six Months Ended As Previously Reported June 30, 2005	Restatement Adjustments	Restated
Cash flows from operating activities:						
Net income	$ 1,195	$ (2)	$ 1,193	$ 2,494	$ (366)	$ 2,128
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Provision for deferred income taxes		94	94		347	347
Depreciation and amortization	1,549	19	1,568	3,122	55	3,177
Bad debt provision (benefit)	(39)		(39)	(122)		(122)
Adjustments for inventory reserve	(97)		(97)	(694)		(694)
Stock-based compensation	75		75	551		551
Loss (gain) on disposition of property and equipment	1		1	38		38
Changes in operating accounts:						
Deposits	(78)	78		(40)	40	
Accounts receivable	1,754	(31)	1,723	1,699	48	1,747
Lease receivable	68		68	200		200
Inventories	653	(18)	635	(240)	(8)	(248)
Prepaid expenses and other current assets	(2,183)	(50)	(2,233)	(3,566)	(69)	(3,635)
Other assets	(105)		(105)	54		54
Accounts payable	(40)	(34)	(74)	(1,682)	(35)	(1,717)
Accrued liabilities	(2,818)	(45)	(2,863)	(3,459)	(279)	(3,738)
Customer deposits	(26)		(26)	109		109
Deferred revenue	494	22	516	(930)	235	(695)
Other liabilities	(91)	(41)	(132)	(419)	(7)	(426)
Net cash provided by (used in) operating activities	312	(8)	304	(2,885)	(39)	(2,924)
Cash flows used in investing activities:						
Purchases of property and equipment	(764)	87	(677)	(788)	79	(709)
Proceeds on disposition of property and equipment						
Additions to license and patent costs	(132)		(132)	(238)		(238)
Software development costs	(222)		(222)	(444)		(444)
Net cash used in investing activities	(1,118)	87	(1,031)	(1,470)	79	(1,391)
Cash flows from financing activities:						
Stock options, stock purchase plan and restricted stock proceeds	1,115		1,115	7,240		7,240
Repayment of long-term debt	(90)	1	(89)	(90)	2	(88)
Payments under obligation to former stockholders of 3D Systems S.A.	(219)		(219)	(439)		(439)
Payment of preferred stock dividends				(785)		(785)
Stock issuance costs				(103)		(103)
Payment of accrued liquidated damages	(36)		(36)	(36)		(36)
Net cash provided by financing activities	770	1	771	5,787	2	5,789
Effect of exchange rate changes on cash	267	(14)	253	413	(28)	385
Net increase (decrease) in cash and cash equivalents	231	66	297	1,845	14	1,859
Cash and cash equivalents, beginning of period	26,276	229	26,505	26,276	229	26,505
Cash and cash equivalents, end of period	$ 26,507	$ 295	$ 26,802	$ 28,121	$ 243	$ 28,364

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

Consolidated Statement of Cash Flows	Nine Months Ended September 30, 2005 As Previously Reported	Restatement Adjustments	Restated	Year Ended December 31, 2005 As Previously Reported	Restatement Adjustments	Restated
Cash flows from operating activities:						
Net income	$ 3,655	$ (582)	$ 3,073	$ 10,083	$ (677)	$ 9,406
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Deferred income taxes, net of valuation allowance				(2,500)		(2,500)
Depreciation and amortization	4,715	97	4,812	5,764	162	5,926
Bad debt provision (benefit)	16		16	(48)		(48)
Adjustments for inventory reserve	(720)		(720)	(733)		(733)
Stock-based compensation	699		699	941		941
Loss (gain) on disposition of property and equipment	(54)		(54)	(262)		(262)
Changes in operating accounts:						
Deposits	(39)	39		(13)	13	
Accounts receivable	(909)	212	(697)	(13,008)	393	(12,615)
Lease receivable	344		344	448		448
Inventories	(5,189)	(17)	(5,206)	(7,907)	(868)	(8,775)
Prepaid expenses and other current assets	(4,839)	(71)	(4,910)	(4,207)	(18)	(4,225)
Other assets	229		229	69	(90)	(21)
Accounts payable	1,044	(35)	1,009	4,211	700	4,911
Accrued liabilities	(2,599)	92	(2,507)	(148)	255	107
Customer deposits	1,228		1,228	1,157		1,157
Deferred revenue	(1,131)	225	(906)	763	182	945
Other liabilities	(460)	(6)	(466)	(418)	(7)	(425)
Net cash provided by (used in) operating activities	(4,010)	(46)	(4,056)	(5,808)	45	(5,763)
Cash flows used in investing activities:						
Purchases of property and equipment	(1,873)	87	(1,786)	(2,603)	87	(2,516)
Proceeds on disposition of property and equipment	98		98	727		727
Additions to license and patent costs	(504)		(504)	(372)		(372)
Software development costs	(635)		(635)	(598)	90	(508)
Net cash used in investing activities	(2,914)	87	(2,827)	(2,846)	177	(2,669)
Cash flows from financing activities:						
Stock options, stock purchase plan and restricted stock proceeds	8,020		8,020	8,135		8,135
Repayment of long-term debt	(180)	3	(177)	(180)	3	(177)
Payments under obligation to former stockholders of 3D Systems S.A.	(585)		(585)	(585)		(585)
Payment of preferred stock dividends	(785)		(785)	(1,617)		(1,617)
Stock issuance costs	(211)		(211)		(211)	(211)
Payment of accrued liquidated damages	(36)		(36)	(36)		(36)
Net cash provided by financing activities	6,223	3	6,226	5,717	(208)	5,509
Effect of exchange rate changes on cash	416	(31)	385	773	(27)	746
Net increase (decrease) in cash and cash equivalents	(285)	13	(272)	(2,164)	(13)	(2,177)
Cash and cash equivalents, beginning of period	26,276	229	26,505	26,276	229	26,505
Cash and cash equivalents, end of period	$ 25,991	$ 242	$ 26,233	$ 24,112	$ 216	$ 24,328

The changes for each period displayed in the table above are the result of the restatement adjustments previously described in this Note 2.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

The impact of the restatement on the condensed consolidated statements of cash flows for the three-month and six-month periods ended March 31, 2006 and June 30, 2006, respectively, is as follows:

Consolidated Statement of Cash Flows	Three Months Ended As Previously Reported March 31, 2006 (amounts in $000s)	Restatement Adjustments	Restated	Six Months Ended As Previously Reported June 30, 2006	Restatement Adjustments	Restated
Cash flows from operating activities:						
Net loss	$ (833)	$ (704)	$ (1,537)	$ (8,774)	$ (3,288)	$ (12,062)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Provision for deferred income taxes		94	94		62	62
Depreciation and amortization	1,514	105	1,619	2,966	448	3,414
Bad debt provision (benefit)	60		60	404	(55)	349
Adjustments to inventory reserves		(170)	(170)		(101)	(101)
Stock-based compensation	452		452	1,336		1,336
Loss (gain) on disposition of property and equipment	2		2	(96)		(96)
Changes in operating accounts:						
Accounts receivable	3,639	11	3,650	2,232	1,009	3,241
Lease receivable		20	20		69	69
Inventories	(2,352)	422	(1,930)	(8,082)	772	(7,310)
Prepaid expenses and other current assets	(395)	420	25	(1,007)	1,017	10
Other assets	93	90	183	236	165	401
Accounts payable	1,550	(735)	815	4,484	(216)	4,268
Accrued liabilities	(495)	19	(476)	(1,504)	400	(1,104)
Customer deposits	(594)		(594)	1,114	(125)	989
Deferred revenue	353	(76)	277	(1,549)	62	(1,487)
Other liabilities	(2)	3	1	(57)	3	(54)
Net cash provided by (used in) operating activities	2,992	(572)	2,420	(8,297)	222	(8,075)
Cash flows used in investing activities:						
Purchases of property and equipment	(2,184)	600	(1,584)	(3,888)	435	(3,453)
Proceeds on disposition of property and equipment	150		150	248		248
Additions to license and patent costs	(159)		(159)	(226)		(226)
Software development costs	(40)	(90)	(130)	(294)	(4)	(298)
Net cash used in investing activities	(2,233)	510	(1,723)	(4,160)	431	(3,729)
Cash flows from financing activities:						
Stock options, stock purchase plan and restricted stock proceeds	1,687		1,687	2,162	(214)	1,948
Repayment of long-term debt	(100)	(2)	(102)	(100)	(3)	(103)
Payment of preferred stock dividends				(785)		(785)
Net cash provided by financing activities	1,587	(2)	1,585	1,277	(217)	1,060
Effect of exchange rate changes on cash	(60)	64	4	(280)	(304)	(584)
Net increase (decrease) in cash and cash equivalents	2,286		2,286	(11,460)	132	(11,328)
Cash and cash equivalents, beginning of period	24,112	216	24,328	24,112	216	24,328
Cash and cash equivalents, end of period	$ 26,398	$ 216	$ 26,614	$ 12,652	$ 348	$ 13,000

The changes for each period displayed in the table above are the result of the restatement adjustments previously described in this Note 2.

30

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(3) Inventories

Components of inventories, net are as follows:

	June 30, 2006 Restated	December 31, 2005 Restated
Raw materials	$ 609	$ 207
Inventory held by assemblers	946	417
Work in process	58	55
Finished goods	20,640	14,131
	$ 22,253	$ 14,810

Inventory held by assemblers at June 30, 2006 and December 31, 2005 represented inventory sold to those assemblers and accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 49, Accounting for Product Financing Arrangements, issued by the Financial Accounting Standards Board (FASB). See Note 4.

(4) Outsourcing of Assembly and Refurbishment Activities

During 2004, the Company engaged selected design and manufacturing companies to assemble its equipment portfolio and discontinued its equipment assembly activities at its Grand Junction, Colorado facility. This included its InVision® 3-D printing equipment, its Viper SLA® systems and certain other equipment items, the refurbishment of used equipment systems, and the assembly of field service kits for sale by the Company to its customers.

The Company agreed to sell to those third parties components of its raw materials inventory related to those systems. Such sales were recorded in the financial statements as a product financing arrangement under SFAS No. 49. Pursuant to SFAS No. 49, as of June 30, 2006 and December 31, 2005, the Company s consolidated balance sheets included a non-trade receivable of $921 and $1,051, respectively, classified in prepaid expenses and other current assets reflecting the book value of the inventory sold to the assemblers for which the Company had not received payment. At June 30, 2006 and December 31, 2005, $946 and $417, respectively, were included in inventory with a corresponding amount included in accrued liabilities representing the Company s non-contractual obligation to purchase 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 purchases assembled systems from the assemblers prior to the receipt of an order from a customer. At June 30, 2006 and December 31, 2005, the Company had made $5,590 and $5,271, respectively, of progress payments to assemblers for systems forecasted to be required for resale to customers after such dates. These progress payments were recorded in prepaid expenses and other current assets in the consolidated balance sheets.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(5) Property and Equipment, net

Property and equipment is summarized as follows:

	June 30, 2006 Restated	December 31, 2005 Restated	Useful Life (in years)
Land	$ 436	$ 436	
Building	4,202	4,202	30
Machinery and equipment	24,003	21,603	3 5
Office furniture and equipment	3,051	3,022	5
Leasehold improvements	3,972	3,534	
Rental equipment	922	910	5
Construction in progress	4,174	3,785	N/A
	40,760	37,492	
Less: Assets held for sale, net	(3,454)		
Accumulated depreciation	(26,306)	(25,500)	
	$ 11,000	$ 11,992	

Depreciation expense was $766 and $689 for the three months and $1,502 and $1,342 for the six months ended June 30, 2006 and June 30, 2005, 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. The Company has accelerated amortization of the leasehold improvements related to the Valencia facility as a result of its plan to substantially discontinue use of the facility in September 2006. Such accelerated amortization amounted to $20 in the second quarter of 2006 and $40 for the six months ended June 30, 2006.

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, and on July 27, 2006 the Company entered into an agreement to sell the Grand Junction facility for a cash purchase price of $7,300, which was in excess of its net book value. The consummation of this sale was subject to the satisfaction of certain customary conditions. During the second quarter of 2006, the Company also realized $98 in net proceeds from the sale of certain personal property associated with this facility that were no longer required for the Company s operations. Approximately $3,454 in net assets, comprised of $436 of land and $3,018 of building, 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 at June 30, 2006. Following the closing of this facility, the Company ceased to record depreciation expense related to this facility, which amounted to $570 per year. The Company expects to realize an amount from the disposition of these assets in excess of their net book value and in excess of the remaining outstanding balance of the industrial development bonds used to finance the facility. See Notes 2 and 8.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(6) Intangible Assets

(a) Licenses and Patent Costs

Licenses and patent costs are summarized as follows:

	June 30, 2006 Restated	December 31, 2005 Restated	Weighted average useful life (in years)
Licenses, at cost	$ 2,333	$ 2,333	Fully amortized
Patent costs	18,497	18,226	7.7
	20,830	20,559	
Less: Accumulated amortization	(15,736)	(15,034)	
	$ 5,094	$ 5,525	

For the six months ended June 30, 2006 and June 30, 2005, the Company capitalized $226 and $238, respectively, of costs to acquire, develop and extend patents in the United States and certain other countries. Amortization expense related to such intangible assets was $360 and $335 for the three months and $702 and $671 for the six months ended June 30, 2006 and June 30, 2005, respectively.

(b) Acquired Technology

Acquired technology is summarized as follows:

	June 30, 2006 Restated	December 31, 2005 Restated
Acquired technology	$ 10,232	$ 10,148
Less: Accumulated amortization	(8,526)	(7,683)
	$ 1,706	$ 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. Amortization expense related to acquired technology was $439 and $379 for the three months and $843 and $758 for the six months ended June 30, 2006 and June 30, 2005, respectively. The Company expects the total amortization expense with respect to remaining unamortized acquired technology to be $1,157 in 2006 and $549 in 2007, at which time these costs will be fully amortized.

(c) Other Intangible Assets

The Company had $500 and $587 of other net intangible assets as of June 30, 2006 and December 31, 2005, respectively. Amortization expense related to such intangible assets was $161 and $206 for the three months and $331 and $406 for the six months ended June 30, 2006 and June 30, 2005, respectively.

(7) Hedging Activities and Derivative Instruments

The Company and its subsidiaries conduct business in various countries using both its functional currencies and other currencies to effect cross-border transactions. As a result, the Company and its subsidiaries are subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, the Company endeavors to match assets and liabilities in the same currency on its

33

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

balance sheet and those of its subsidiaries in order to reduce these risks. The Company also, when it considers it to be appropriate, enters into foreign currency contracts to hedge exposures arising from those transactions. The Company has not adopted hedge accounting under SFAS No. 133, Accounting for Derivatives and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138, and all gains and losses (realized or unrealized) are recognized in cost of sales in the Condensed Consolidated Statements of Operations. At June 30, 2006, the notional amount of these contracts at their respective settlement dates amounted to $11,523 and related primarily to purchases of inventory from suppliers that are denominated in Swiss francs, and inter-company purchase obligations of the Company s subsidiaries denominated in euros, pounds sterling and Japanese yen. The respective notional amounts of these contracts at June 30, 2006 aggregated Swiss francs 2,155 (equivalent to $1,746 at settlement date), euros 3,800 (equivalent to $4,758 at settlement date), pounds sterling 565 (equivalent to $1,032 at settlement date) and Japanese yen 460,000 (equivalent to $3,987 at settlement date).

During 2005, the Company entered into a range-forward arrangement with a large, creditworthy financial institution to hedge certain other currency-rate exposures in Japanese yen. This arrangement established a collar around a range of exchange rates between 106.0 and 113.5 Japanese yen to the U.S. Dollar to hedge 95,000 Japanese yen (approximate equivalent range of $896 to $837) of inter-company purchase obligations. Both the put and call options entered into under the hedge arrangement were for the same monetary amount and maturity date.

The dollar equivalent of the foreign currency contracts and related fair values as of June 30, 2006 and December 31, 2005 were as follows:

	Foreign Currency Option Contracts		Foreign Currency Purchase Contracts		Foreign Currency Sales Contracts	
	June 30, 2006 Restated	December 31, 2005	June 30, 2006 Restated	December 31, 2005	June 30, 2006 Restated	December 31, 2005
Notional amount	$ 0	$ 837	$ 1,746	$ 1,269	$ 9,777	$ 4,624
Fair value	0	866	1,757	1,258	9,957	4,519
Net unrealized gain (loss)	$ 0	$ 29	$ 11	$ (11)	$ (180)	$ 105

The net fair value of all of these contracts at June 30, 2006 and December 31, 2005, reflected net unrealized gains (loss) of $(169) and $123, respectively. These foreign currency contracts expire at various dates between July 11, 2006 and August 29, 2006.

Changes in the fair value of derivatives are recorded in cost of sales in the consolidated statements of operations. Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid expenses and other current assets or in accrued liabilities in the consolidated balance sheets.

The total impact of foreign currency related items on the consolidated statement of operations, was a gain (loss) of $152 and $230 for the quarter and six months ended June 30, 2006, respectively, and $(120) and $(619) for the quarter and six months ended June 30, 2005, respectively.

The Company is exposed to credit risk if the counterparties to such transactions are unable to perform their obligations. However, the Company seeks to minimize such risk by entering into transactions with counterparties that are believed to be creditworthy financial institutions.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(8) Borrowings

Total outstanding borrowings were as follows:

	June 30, 2006 Restated (dollars in thousands)	December 31,2005 Restated
Line of credit	$	$
Industrial development revenue bonds:		
Current portion of long-term debt	$ 3,645	$ 200
Long-term debt, less current portion		3,545
Total	$ 3,645	$ 3,745
Installment note:		
Current portion of installment note	$ 7	$ 7
Installment note, less current portion	20	23
Total	$ 27	$ 30
Subordinated debt:		
6% convertible subordinated debentures	$ 22,354	$ 22,604
Total current portion of debt	$ 3,652	$ 207
Total long-term portion of debt	22,374	26,172
Total debt	$ 26,026	$ 26,379

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 2.25%. 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.

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 to maintain (a) a quick ratio (as defined in the credit facility) of at least 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 as of December 31, 2005 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 million for certain periods ending on or before December 31, 2005 and not less

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

than $15 million for each test period ended on or after March 31, 2006. The Company believes that it was in compliance with these financial covenants at December 31, 2005, except for the minimum EBITDA covenant, which non-compliance the Bank agreed to waive. The Company obtained a waiver from its compliance with certain of these financial covenants as of June 30, 2006.

At June 30, 2006 and December 31, 2005, respectively, the Company had $1,746 and $1,659 of foreign exchange forward contracts outstanding with Silicon Valley Bank. No borrowings or letters of credit were outstanding under this facility at either June 30, 2006 or December 31, 2005, and the Company does not currently expect to borrow under this credit facility. See Note 7.

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 June 30, 2006, the outstanding principal amount of these bonds was $3,645. Interest on the bonds accrues at a variable rate of interest and is payable monthly. The interest rate at June 30, 2006 was 3.2%. Principal payments are due in semi-annual installments 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. Effective November 9, 2005, the Company entered into an amendment to the reimbursement agreement with Wells Fargo pursuant to which such funds are held in a non-interest-bearing account at Wells Fargo, and Wells Fargo has a security interest in that account as partial security for the performance of the Company s obligations under the reimbursement agreement. Under that amendment, the Company also has the right to substitute a standby letter of credit issued by a bank acceptable to Wells Fargo as collateral in place of the funds held in that account.

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 $23.0 million 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. The Company is required to demonstrate its compliance with these financial covenants as of the end of each calendar quarter. As of December 31, 2005, the Company was in compliance with these financial covenants both before and after giving effect to the restatement. As of the period ended June 30, 2006 (after giving effect to the restatement), the Company was not in compliance with the fixed-charge coverage ratio. On January 24, 2007, Wells Fargo agreed to waive this non-compliance in consideration of the payment by the Company of a $36 non-refundable waiver fee.

As discussed above, the Company ceased operations at the Grand Junction facility on April 28, 2006, and the Company plans to sell the facility. At the time the closing of the sale of the facility occurs, the Company expects to either pay off these bonds or, with the approval of Wells Fargo, have them assumed by

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

the buyer. As a result, the Company reclassified the aggregate outstanding amount of the industrial development bonds to current liabilities at June 30, 2006.

As a result of the proposed sale of the Grand Junction facility, discussed above, the following assets and liabilities are reclassed from long-term to short-term on the balance sheet as of June 30, 2006:

	June 30, 2006
Current assets:	
Assets held for sale	$ 3,454
Restricted cash	$ 1,200
Current liabilities:	
Industrial Development Bonds-current portion	$ 3,645

Such restricted cash is held on deposit as partial security for the Company s obligations under the industrial development bonds discussed above, and therefore it is not available to the Company for its general use.

6% Convertible Subordinated Debentures

In the fourth quarter of 2003, the Company privately placed $22,704 of 6% convertible subordinated debentures with institutional and accredited investors. The net proceeds from the issuance of these debentures, after deducting capitalized issuance costs of $578, amounted to $22,126. The capitalized issuance costs are being amortized to interest expense over the 10-year life of the 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 at the option of the holders at any time prior to maturity at $10.18 per share, subject to customary anti-dilution adjustments. The Company has the right to redeem the debentures, in whole or in part, commencing on November 24, 2006 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. The aggregate principal amount of these debentures then outstanding matures on November 30, 2013. If the Company undergoes a change in control (as defined), 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. At June 30, 2006, $22,354 aggregate principal amount of these debentures were outstanding, and they were convertible into an aggregate of 2,196 shares of Common Stock.

The debentures are subordinated in right of payment to senior indebtedness (as defined). At the time the debentures were issued, the Company granted registration rights to the purchasers of the debentures pursuant to which, subject to certain terms and conditions, the Company agreed to file a registration statement to register for resale under the Securities Act of 1933, as amended (the Securities Act), the shares of Common Stock into which the debentures are convertible. The conditions to the Company s obligation to file such registration statement have not yet been satisfied, and no such registration statement is currently pending. The Company is not subject to any penalties under the terms of such registration

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

rights if it fails to comply with its obligation to file such registration statement once the conditions to such filing have been satisfied.

Installment Loan

The installment debt relates to an auto loan for a term of 72 months at $0.7 per month for a motor vehicle that the Company purchased in 2003 for the use of the Company s chief executive officer as provided for in his employment agreement entered into in 2003. The implicit interest rate is 8% per annum.

(9) Convertible Preferred Stock

On June 8, 2006, following a conditional call for redemption that the Company issued on May 8, 2006, all of the Company s then outstanding Series B Convertible Preferred Stock was converted by the holders thereof into 2,640 shares of Common Stock, including 23 shares of Common Stock covering accrued and unpaid dividends to June 8, 2006. During the second quarter of 2006, the Company recognized $1,003 of dividend cost, including $869 of non-cash cost associated with the initial offering costs that remained unaccreted as of June 8, 2006 and accrued dividends from May 5 to June 8, 2006. Following this conversion, the Company filed a certificate of elimination with the Delaware Secretary of State eliminating the Series B Convertible Preferred Stock from the Company s certificate of incorporation and restoring the shares of preferred stock previously covered by the certificate of designations of the Series B Convertible Preferred Stock to the status of authorized but unissued shares of preferred stock.

Previously, on May 5, 2003, 2,634 shares of Series B Convertible Preferred Stock were privately placed at a price of $6.00 per share with institutional and accredited investors. Net proceeds were $15,167 after deducting $637 of offering expenses. The offering expenses were recorded as a reduction to the face value of the redeemable preferred stock and were being accreted as dividends over ten years. The Series B Convertible Preferred Stock accrued dividends, on a cumulative basis, at $0.60 per share each year while it remained outstanding. Prior to May 6, 2004, the cumulative dividend rate was $0.48 per share per year. Dividends were paid semi-annually on May 5 and November 5 of each year while these shares remained outstanding. In addition, the Series B Convertible Preferred Stock was convertible at any time at the option of the holders on a share-for-share basis into shares of the Company s Common Stock, plus the amount of accrued and unpaid dividends on the shares converted.

(10) Severance and Restructuring

The Company is in the process of moving its corporate headquarters, principal R&D activities and all other key corporate support functions to a new facility that is being constructed and that it has agreed to lease in Rock Hill, South Carolina. The Company established an initial base of operations in Rock Hill and commenced local operations there in January 2006 and expects to complete the move to the new Rock Hill facility in 2006. In connection with this project, the Company incurred expenses for personnel, relocation, recruiting and other non-cash items amounting to $2,260 for the three months ended June 30, 2006 and $3,898 for the six months ended June 30, 2006, of which $26 and $72, respectively, were non-cash facility-related costs.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(11) Stock-based Compensation Plans

The Company maintains stock-based compensation plans that are described more fully in Note 18, Stockholders Equity, to the Consolidated Financial Statements for the year ended December 31, 2005, filed with the Company s Annual Report on Form 10-K.

The Company adopted SFAS No. 123R effective January 1, 2006 and began recording compensation expense for previously issued stock options that vest subsequent to that date. Compensation expense under SFAS No. 123R was $200 for the three months ended June 30, 2006 and $379 for the six months ended June 30, 2006 and is included in selling, general and administrative expenses on the condensed consolidated statements of operations. The Company used a Black-Scholes option pricing model to determine the fair value of the unvested options at June 30, 2006. The compensation expense reflects a reduction in expense for an annualized 0.0% forfeiture rate and also reflects a stock price volatility rate of 0.36. No stock options have been granted since 2004.

Prior to January 1, 2006, the Company applied the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, 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 is generally recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Prior to January 1, 2006, the Company applied 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. The Company has elected to apply SFAS No. 123R prospectively only. The following pro forma net income and net income per share information is presented for 2005 only as if the Company had commenced applying SFAS No. 123R in 2005 for stock-based compensation awarded under its stock-based compensation plans using the fair value method. Under the fair value method, the estimated fair value of stock-based incentive awards is charged against income on a straight-line basis over the vesting period.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2005 Restated	Six Months Ended June 30, 2005 Restated
Net income available to common stockholders, as reported	$ 491	$ 1,272
Add: Stock-based employee compensation expense included in reported net earnings net of related tax benefits		
Deduct: Stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(372)	(789)
Pro forma net income	$ 119	$ 483
Basic net income available to common stockholders per share:		
As reported	$ 0.03	$ 0.09
Pro forma	0.01	0.03
Diluted net income available to common stockholders per share:		
As reported	0.03	0.08
Pro forma	$ 0.01	0.03

The Company granted restricted stock awards to certain employees, including executive officers, covering 137 shares of Common Stock, during the six-month period ended June 30, 2006 pursuant to the Company s 2004 Incentive Stock Plan. Shares of restricted Common Stock awarded under that Plan are issued for a purchase price of $1.00 per share and are subject to forfeiture for a period of three years following their date of grant in the event that the recipient leaves the employ of the Company other than as a result of death or disability. The Company records deferred compensation expense with respect to such awards in an amount equal to the difference between the fair market value of the Common Stock covered by each award on the date of grant less the amount payable by each recipient in accordance with SFAS No. 123R. For the three months ended June 30, 2006 and 2005, the Company recorded $397 and $125, respectively, of compensation expense associated with restricted stock awards granted during the quarter and amortization of awards granted prior to the second quarter. The comparable expense for the six months ended June 30, 2006 and 2005, was $580 and $163, respectively. In each year, certain of such awards were made in lieu of, or as an alternative to, cash bonuses that had previously been accrued with respect to 2005 or 2004, as the case may be. As a result, the Company reduced its accrual for 2005 cash-based bonuses by a net amount of $256 in the six months ended June 30, 2006 and, for 2004, reduced its accrual for cash-based bonuses by a net amount of $256 in the first six months of 2005.

For the three months and six months ended June 30, 2006, the Company awarded 18 shares of Common Stock to non-employee directors under the Company s Restricted Stock Plan for Non-Employee Directors and recorded $372, in compensation expense associated with those awards. For the three and six months ended June 30, 2005, the Company awarded 18 and 20 shares of Common Stock, respectively, to non-employee directors and recorded $350 and $389, respectively, in compensation expense associated with those awards.

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

(12) Computation of Net Income (Loss) Per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted net income (loss) per share computations:

	Three Months Ended June 30		Six Months Ended June 30	
	2006 Restated	2005 Restated	2006 Restated	2005 Restated
Numerator:				
Net income (loss) available to common stockholders numerator for basic net income (loss) per share	$ (11,528)	$ 491	$ (13,476)	$ 1,272
Add: Series B Convertible 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	$ (11,528)	$ 491	$ (13,476)	$ 1,272
Denominator:				
Denominator for basic net income (loss) per share weighted average shares	16,293	14,792	15,832	14,684
Add: Effect of dilutive securities:				
Stock options and restricted stock		1,108		1,174
Series B Convertible Preferred Stock				
6% convertible subordinated debentures				
Denominator for diluted net income (loss) per share weighted average shares	16,293	15,900	15,832	15,858

All outstanding shares of Series B Convertible Preferred Stock were converted into 2,640 shares of Common Stock effective June 8, 2006, and such shares of Common Stock are included in the weighted average shares of Common Stock outstanding as of June 30, 2006 for the purposes of calculating diluted net income (loss) per share available to common stockholders for the three months and six months ended June 30, 2006. See Note 9. The 2,617 shares of Common Stock issuable upon conversion of the then outstanding Series B Convertible Preferred Stock were excluded from the calculation of diluted net income (loss) per share available to common stockholders for the three months and six months ended June 30, 2005 because their effect would have been anti-dilutive, that is, they would have increased net income per share available to common stockholders.

For the three months and six months ended June 30, 2006, 801 and 818 shares, respectively, issuable upon the exercise of outstanding stock options were excluded from the calculation of diluted net loss per share because their effects would have been anti-dilutive, that is, they would have reduced net loss per share.

For the three months and six months ended June 30, 2006 and 2005, respectively, 2,196 and 2,220 shares of Common Stock issuable upon conversion of outstanding 6% convertible subordinated debentures

41

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

were excluded from the calculation of diluted net income (loss) per share because their effects would have been anti-dilutive, that is, they would have reduced net loss or increased net income per share available to the common stockholders.

(13) 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 operations in the United States, sales and service offices in the European Community (France, Germany, the United Kingdom and Italy) and Asia (Japan and Hong Kong), and a research and production facility in Switzerland. Revenue from unaffiliated customers attributed to Germany includes sales by the Company s German unit 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.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006 Restated	**2005 Restated**	**2006 Restated**	**2005 Restated**
Revenue from unaffiliated customers:				
North America	$ 11,987	$ 14,733	$ 30,382	$ 28,978
Germany	4,230	5,659	8,929	10,815
Other Europe	6,171	7,210	12,583	13,201
Asia	4,743	4,842	8,880	9,874
Total	$ 27,131	$ 32,444	$ 60,774	$ 62,868

All revenue between geographic areas is recorded at transfer prices which are above cost and provide for an allocation of profit between entities.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006 Restated	**2005 Restated**	**2006 Restated**	**2005 Restated**
Revenue from or transfers between geographic areas:				
North America	$ 10,275	$ 9,491	$ 19,068	$ 18,739
Germany	1,080	593	2,090	1,319
Other Europe	1,236	1,341	2,102	2,692
Asia				
Total	$ 12,591	$ 11,425	$ 23,260	$ 22,750

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2006 Restated	2005 Restated	Six Months Ended June 30, 2006 Restated	2005 Restated
Income (loss) from operations:				
North America	$ (6,172)	$ 1,335	$ (6,708)	$ 3,446
Germany	273	(452)	722	(694)
Other Europe	(2,361)	1,166	(3,717)	1,244
Asia	(203)	(206)	687	49
Subtotal	(8,057)	1,843	(9,016)	4,045
Intercompany elimination	(2,271)	(518)	(2,659)	(1,087)
Total	$ (10,328)	$ 1,325	$ (11,675)	$ 2,958

	June 30, 2006 Restated	December 31, 2005 Restated
Assets:		
North America	$ 77,150	$ 76,865
Germany	18,148	14,356
Other Europe	54,526	55,774
Asia	15,266	20,426
Subtotal	165,090	167,421
Inter-company elimination	(18,613)	(16,241)
Total assets	$ 146,477	$ 151,180

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

	Three Months Ended June 30, 2006 Restated	2005 Restated	Six Months Ended June 30, 2006 Restated	2005 Restated
Systems and other products	$ 7,451	$ 11,459	$ 19,830	$ 21,604
Materials	11,482	10,894	23,355	20,987
Services	8,198	10,091	17,589	20,277
Total revenue	$ 27,131	$ 32,444	$ 60,774	$ 62,868

(14) Income Taxes

For the quarter and six months ended June 30, 2006, the Company used effective income tax rates of (0.4)% and (0.5)%, respectively, to determine its tax provisions for the quarter and six-month periods then ended, which primarily reflected the effect of the utilization of foreign net operating loss carry-forwards in certain tax jurisdictions and foreign taxes due in other jurisdictions.

During the fourth quarter of 2005, the Company reduced its valuation allowance on net deferred tax assets by $2.5 million and recorded a net deferred tax asset on its consolidated balance sheet as a result of

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

its determination that it was more likely than not that it would be able to utilize a portion of its deferred tax assets attributable to U.S. taxes in 2006 in light of the improvement in the Company s operations and management s expectation of future taxable income. Utilization of that tax asset depends on future taxable income of the Company.

As of June 30, 2006, except for the $2.5 million allowance reduction in the U.S. described above, the Company maintained a full valuation allowance on all of its deferred tax assets, including net operating loss carry-forwards, in various tax jurisdictions. The Company intends to continue to assess the valuation allowance periodically under the standards of SFAS No. 109, Accounting for Income Taxes.

For a discussion of other tax matters relating to the Company, please see Note 23 to the Consolidated Financial Statements set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

(15) Commitments and Contingencies

Rock Hill Facility Lease Agreement

On February 8, 2006, the Company entered into a Lease Agreement with KDC-Carolina Investments 3, LP pursuant to which KDC agreed to construct and to lease to the Company an approximately 80 square foot building in Rock Hill, South Carolina in connection with the relocation of the Company s headquarters from Valencia, California, and the transfer of certain operations of its Grand Junction, Colorado facility, to Rock Hill. Under the terms of this Lease, KDC will lease the building to the Company for an initial 15-year term following completion.

After its initial term, the Lease provides the Company with the option to renew the Lease for two additional five-year terms as well as 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. The Lease is a triple net lease and provides for the payment of base rent of approximately $707 in each of full calendar years one through five, $750 in each of calendar years nine through ten and $794 in each of calendar years eleven through fifteen. Under the terms of the Lease, the Company will be 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.

Assuming that the commencement date of that Lease were on August 31, 2006, base rent payments for that facility would be $59 in 2006, $707 in 2007, $707 in 2008, $707 in 2009, $707 in 2010 and a cumulative amount of $8,154 in later years. As of August 7, 2006, the Company and KDC entered into an amendment to the Lease whereby, among other things, the Company agreed to pay the costs of certain tenant improvements and change orders with a total cost to the Company of $2,092.

Symyx Agreement

Effective April 1, 2006, the Company entered into an agreement with Symyx Technologies, Inc. under which the Company and Symyx will work together to discover and commercialize advanced materials for use in the Company s rapid prototyping and rapid manufacturing solutions. Under this agreement, the

3D SYSTEMS CORPORATION
Notes to Condensed Consolidated Financial Statements (Restated) (Continued)
For the Three Months and Six Months Ended June 30, 2006 and 2005
(amounts in thousands, except per share data)
(unaudited)

Company will fund up to $2,400 of research over a two-year period to enable Symyx to develop new materials formulations that the Company could commercialize for rapid prototyping and rapid manufacturing applications. During the second quarter of 2006, the Company recorded approximately $300 of research and development expense related to this agreement.

Certain Legal Matters

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 its current and former employees and executives. The Company was advised that it is not a target of the grand jury investigation, and the Company has not been informed that this status has changed. The Company has furnished documents required by the subpoena and is otherwise complying with the subpoena.

The Company is involved in various 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.

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

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q/A.

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

As discussed in greater detail below, certain of these risks and uncertainties resulted in material adverse effects on our Consolidated Statements of Operations for the quarter and six months ended June 30, 2006 and on our Consolidated Balance Sheet and Statement of Cash Flows as of and for the periods then ended.

Business Overview

We design, develop, manufacture, market and service rapid 3-D printing, prototyping and manufacturing systems and related products and materials and provide customer services that enable complex three-dimensional objects to be produced directly from computer data without tooling, greatly reducing the time and cost required to produce prototypes or customized production parts. Our consolidated revenue is derived primarily from the sale of our systems, the sale of the related materials used by the systems to produce solid objects and the provision of services to our customers.

Restatement of Financial Statements

On November 3, 2006, we announced that management and the Audit Committee of our Board of Directors had determined, based on information presented by our management in connection with the preparation of our financial statements for the third quarter of 2006, that our financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 contained errors. As a result, the Audit Committee concluded that those financial statements should be restated and that investors should not rely upon those financial statements without taking into account the effects of the restated financial information that is included in this Form 10-Q/A.

We also announced at that time that we were assessing whether our financial statements for prior periods should be restated. On December 14, 2006, we announced that management and the Audit Committee had completed our assessment of the prior-period financial statements and that, based on information presented by our management, the financial statements included in our Annual Reports on Form 10-K for the 2004 and 2005 calendar years also contained errors and should be restated. In evaluating the need to restate those periods, we also took into consideration audit adjustments that had been identified previously as not being material to our financial statements for those periods and have included those adjustments in the restated amounts for the applicable 2005 and 2004 periods.

We have identified and evaluated the errors noted in our prior-period financial statements and have corrected those errors through adjustments reflected in the restated historical consolidated financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. We also assessed on a quarterly basis the materiality of prior-period misstatements that were previously identified but not corrected because they were originally considered to be immaterial. As a result of our analysis of errors identified during the third quarter of 2006 which were attributable to prior periods as well as previously unadjusted amounts attributable to prior periods, we concluded the prior-period impact was material in the second and fourth quarters of 2005 as well as for the years ended December 31, 2005 and 2004. Therefore, the restated financial information reflects adjustments to correct or record all such previously unadjusted amounts.

This Quarterly Report on Form 10-Q/A includes all of the restated financial information for each period ended June 30, 2006 and earlier affected by the restatement. Such restated financial information will also be included in our Annual Report on Form 10-K for the year ended December 31, 2006.

We identified the errors in the 2006 financial statements primarily as a result of our efforts to remediate the material weaknesses that we previously identified and disclosed with respect to our second quarter 2006 financial statements as well as through our ongoing efforts to:

(a) implement our new ERP system;

(b) reconcile the records in our new ERP system and those in our legacy systems; and

(c) test our internal controls in the context of the new ERP system environment.

As part of these efforts, management:

(i) has carried out a comprehensive account reconciliation initiative to test and verify the accuracy and integrity of information recorded by, and data imported and input from our legacy accounting system into, the new ERP system;

(ii) is continuing to train employees in the use of the new ERP system and our established system of internal controls; and

(iii) is continuing to promote adherence to those internal controls.

We have also performed physical inventory counts and a variety of other confirmatory procedures. See Part I, Item 4, Controls and Procedures.

The following table shows the impact of the correction of all errors on income (loss) available to common stockholders for the full years ended December 31, 2004 and 2005 and for each calendar quarter in 2005 and 2006 through June 30, 2006 as well as the cumulative impact of prior-period adjustments on retained earnings at December 31, 2003. The tax effect of the correction of these errors on each restated period was either nominal or nil.

Table 1

	Accumulated Deficit in Earnings	Effect of Restatement on Income (Loss) Available to Common Stockholders							
		Year Ended	Quarter Ended				Year Ended	Quarter Ended	
	December 31, 2003 (dollars in $000s)	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005	March 31, 2006	June 30, 2006
Previously reported	$ (47,442)	$ 1,027	$ 783	$ 855	$ 749	$ 6,017	$ 8,404	$ (1,244)	$ (8,944)
Adjustments:									
Credit memos		10	(19)	(79)	(164)	(101)	(363)	(251)	(978)
Royalty income/expense		253	5	(17)	(17)	(293)	(322)	13	81
Recognition of warranty and training revenue	32	220	11	(246)	13	33	(189)	121	(101)
Stock issuance costs						211	211		
Prepaid materials reconciliation				(29)	(4)	(64)	(97)	(201)	(772)
Depreciation of fixed assets		(4)	(19)	(37)	(42)	(63)	(161)	(106)	(109)
Accrual for professional services						(15)	(15)	(247)	
Inventory usage						22	22		(412)
Hedging activities									(256)
Other		(20)	20	44	(2)	(16)	46	(86)	76
Tax provision	(191)					191	191	53	(113)
Total adjustments:	(159)	459	(2)	(364)	(216)	(95)	(677)	(704)	(2,584)

Restated	$ (47,601)	$ 1,486	$ 781	$ 491	$ 533	$ 5,922	$ 7,727	$ (1,948)	$ (11,528)
Net income (loss) available to common stockholders per share diluted (as previously reported)		$ 0.07	$ 0.05	$ 0.05	$ 0.05	$ 0.32	$ 0.53	$ (0.08)	$ (0.55)
Effect of restatement		0.04	(0.00)	(0.02)	(0.02)	(0.00)	(0.05)	(0.05)	(0.16)
Net income (loss) available to common stockholders per share diluted (restated)		$ 0.11	$ 0.05	$ 0.03	$ 0.03	$ 0.32	$ 0.48	$ (0.13)	$ (0.71)

47

As shown in this table, the adjustments for errors reflected in the restated financial information primarily include:

- $1.6 million in the aggregate of errors related to credit memoranda issued to customers, of which $1.2 million was attributable to the 2006 periods, $0.4 million was attributable to the 2005 periods and a nominal credit was attributable to 2004.

- $1.1 million in the aggregate of errors related to the reconciliation of prepaid materials accounts from sub-ledger to general ledger, of which $1.0 million was attributable to the 2006 periods and $0.1 million was attributable to the 2005 periods.

- $0.4 million in the aggregate of errors related to additional depreciation expense for items placed in service that had not been removed from construction in progress (CIP) accounts prior to the restatement, of which $0.2 million was attributable to the 2006 periods, $0.2 million was attributable to the 2005 periods and a nominal credit was attributable to 2004.

- $0.4 million in the aggregate of errors related to inventory, which was primarily attributable to the 2006 periods.

- $0.3 million in the aggregate of errors related to hedging activities on foreign currency transactions, all of which was attributable to the second quarter of 2006.

See Note 2 to the Condensed Consolidated Financial Statements for a detailed discussion of these errors.

The aggregate effect of these adjustments was to:

- increase net loss by $2.6 million, or 28.9%, from $8.9 million as originally reported to $11.5 million as restated for the quarter ended June 30, 2006;

- increase net loss by $0.7 million, or 56.6%, from $1.2 million as originally reported to $1.9 million as restated for the quarter ended March 31, 2006;

- decrease net income by $0.7 million, or 8.1%, from $8.4 million as originally reported to $7.7 million as restated for the year ended December 31, 2005, and for the respective quarters of 2005 to

- nominally decrease net income for the quarter ended March 31, 2005;

- decrease net income by $0.4 million or 42.6% and from $0.9 million as originally reported to $0.5 million as restated for the quarter ended June 30, 2005;

- decrease net income by $0.2 million or 28.8% and from $0.7 million as originally reported to $0.5 million as restated for the quarter ended September 30, 2005; and

- decrease net income by $0.1 million or 1.6% and from $6.0 million as originally reported to $5.9 million as restated for the quarter ended December 31, 2005; and

- increase net income by $0.5 million, or 44.7%, for the year ended December 31, 2004 from $1.0 million as originally reported to $1.5 million as restated.

On a per share basis, the aggregate effect of these adjustments was to:

- increase diluted net loss per share by $0.16 from $0.55 as originally reported to $0.71 as restated for the quarter ended June 30, 2006;

- increase diluted net loss per share by $0.05 from $0.08 as originally reported to $0.13 as restated for the quarter ended March 31, 2006;

- decrease diluted net income per share by $0.05 from $0.53 as originally reported to $0.48 as restated for the year ended December 31, 2005;

- for the respective quarters of 2005:

- there was no change to diluted net income per share of $0.05 for the quarter ended March 31, 2005;

- diluted net income per share decreased by $0.02 from $0.05 as originally reported to $0.03 as restated for the quarter ended June 30, 2005;

- diluted net income per share decreased by $0.02 from $0.05 as originally reported to $0.03 as restated for the quarter ended September 30, 2005; and

- there was no change to diluted net income per share for the quarter ended December 31, 2005;

- the sum of diluted net income per share for the 2005 quarters does not equal the diluted net income per share for the year ended December 31, 2005 as the quarterly calculations of weighted average shares outstanding are made independently based on the shares applicable to each period, which were not affected by the restatement;

- increase diluted net income per share by $0.04 from $0.07 as originally reported to $0.11 as restated for the year ended December 31, 2004.

Compared to the amounts originally reported, the restatement resulted in a $0.3 million increase in cash and cash equivalents at June 30, 2006 and a $0.2 million increase in cash and cash equivalents at March 31, 2006 that arose from the reclassification of certain unrestricted deposits previously erroneously recorded in prepaid expenses and other current assets.

The restatement also resulted in a $0.3 million increase in cash and cash equivalents at March 31, 2005, a $0.2 million increase in cash and cash equivalents at June 30, 2005, September 30, 2005 and December 31, 2005 and a $0.2 million increase in cash and cash equivalents at December 31, 2004 primarily as a result of the reclassification of certain amounts previously erroneously recorded as prepaid expenses and other current assets, as discussed above. See Note 2 to the Condensed Consolidated Financial Statements.

The restatement also resulted in a $0.2 million reduction to the ending retained earnings balance on December 31, 2003 for errors related to prior periods.

Refer to Note 2 to the Condensed Consolidated Financial Statements and the discussion below for further information with respect to the causes and the effect of the restatement of our Consolidated Financial Statements.

Impact of Restatement on 2006 Condensed Consolidated Financial Statements

As a result of the errors that we identified in connection with our financial statements for the third quarter of 2006, we have restated our consolidated statements of operations, consolidated balance sheets and the consolidated statements of cash flows for the three-month and six-month periods ended March 31, 2006 and June 30, 2006, respectively. The effect of these restatements is discussed below.

Condensed Consolidated Statements of Operations. The effect of the errors that we identified on our statements of operations for the first and second quarters of 2006 are shown in Table 2.

Table 2

Changes in Consolidated Statement of Operations	2006 March 31	June 30
	(amounts in $000s)	
Revenue	$ 116	$ (853)
Cost of sales	526	1,382
Gross profit	(410)	(2,235)
Operating expenses	294	185
Operating loss	(704)	(2,420)
Interest and other expense, net	53	51
Loss before income taxes	(757)	(2,471)
Income tax provision (benefit)	(53)	113
Net loss	$ (704)	$ (2,584)

As shown in Table 2, the changes in each 2006 period relate primarily to the following items:

- Revenue increased $0.1 million, or 0.2%, for the quarter ended March 31, 2006 but decreased by $0.9 million, or 3.1%, for the quarter ended June 30, 2006. The second-quarter decrease primarily relates to $0.9 million of adjustments for credit memoranda for customers as discussed in Note 2 to the Condensed Consolidated Financial Statements that were applicable to the second quarter, a $0.1 million adjustment to correct royalty income from a customer, and a $0.1 million adjustment related to the recognition of warranty and training revenue, partially offset by $282 of other adjustments, each as discussed in Note 2. The increase in revenue during the first quarter primarily relates to $121 of adjustments related to the recognition of warranty and training revenue, $59 of adjustments related to royalty income and $160 of other adjustments, partially offset by $224 of adjustments for credit memoranda that were applicable to the first quarter.

- Cost of sales increased by $0.5 million, or 2.7%, for the quarter ended March 31, 2006 and by $1.4 million, or 6.9%, for the quarter ended June 30, 2006. The increase in cost of sales during the second quarter primarily relates to $0.8 million of adjustments arising from reconciliation adjustments as discussed in Note 2 to the Condensed Consolidated Financial Statements that were between account sub-ledgers and the general ledger pertaining to prepaid materials, a $0.3 million adjustment for foreign exchange transactions, a $0.4 million adjustment related to a reduction for in-transit inventory, and a $0.1 million adjustment for credit memoranda for customers that were applicable to the second quarter. The first-quarter increase in cost of sales primarily relates to a $0.2 million reconciliation adjustment related to prepaid materials and $0.2 million of other adjustments, each as discussed in Note 2.

- Operating expenses increased by $0.3 million, or 2.0%, for the quarter ended March 31, 2006, and by $0.2 million, or 1.2%, for the quarter ended June 30, 2006. The second-quarter increase in operating expenses primarily relates to a $0.1 million adjustment to record additional depreciation expense for items placed in service that had not been removed from construction-in-progress (CIP) accounts prior to the restatement. The first-quarter increase in operating expenses primarily relates to a $0.2 million adjustment to record an increase in professional fees and a $0.1 million adjustment to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement.

- Interest and other expense, net increased by $0.1 million, or 46.5%, for the quarter ended March 31, 2006 and by $0.1 million, or 47.7%, for the quarter ended June 30, 2006. The first and second quarter increases relate to $0.1 million of adjustments to record interest income in the correct periods.

• The changes in the income tax provision during the first and second quarters represent an adjustment to the foreign income tax provision accrual discussed in Note 2.

Condensed Consolidated Balance Sheets. The identified errors impacted the first and second quarter 2006 balance sheet line items as follows:

Table 3

Changes in Consolidated Balance Sheet	**2006 March 31 (amounts in $000s)**	**June 30**
Current Assets:		
Cash	$ 216	$ 348
Accounts receivable	(418)	(1,359)
Inventory	(66)	(363)
Restricted cash, current portion		1,200
Prepaid expenses and other current assets	(526)	(1,126)
Assets held for sale		627
Total current assets	$ (794)	$ (673)
Other Assets:		
Property and equipment	$ (281)	$ (911)
Restricted cash, long-term		(1,200)
	$ (281)	$ (2,111)
Current Liabilities:		
Current portion of long-term debt	$ 7	$ 7
Accounts payable		519
Accrued liabilities	343	765
Customer and other deposits		(125)
Deferred revenue	(119)	18
Total current liabilities	$ 231	$ 1,184
Other Liabilities:		
Long-term debt, less current portion	$ 21	$ 20
Other liabilities	(36)	(35)
Total other liabilities	$ (15)	$ (15)
Stockholders Equity	$ (1,291)	$ (3,953)

The changes in each period relate primarily to the following:

• Cash and cash equivalents increased by $0.2 million, or 0.8%, as of March 31, 2006, and by $0.3 million, or 2.8%, as of June 30, 2006. As noted below within prepaid expenses and other current assets, these increases relate to the reclassification of amounts in the balance sheet.

• Accounts receivable decreased by $0.4 million, or 1.4%, as of March 31, 2006, and by $1.4 million, or 4.3%, as of June 30, 2006. In each period, the decrease primarily relates to adjustments for credit memoranda for customers as discussed above.

• Inventories decreased by $0.1 million, or 0.4%, as of March 31, 2006 and by $0.4 million, or 1.6%, as of June 30, 2006. The decrease in the second quarter was associated with subsequent physical counts which produced variances identified with the second quarter.

- Restricted cash, current portion increased by $1.2 million as of June 30, 2006 as a result of a reclassification within the balance sheet.

- Prepaid expenses and other current assets decreased by $0.5 million, or 5.3%, as of March 31, 2006 and by $1.1 million, or 10.6%, as of June 30, 2006. The second-quarter decrease in prepaid expenses and other current assets primarily relates to $0.6 million of reconciliation adjustments related to prepaid materials, $0.3 million of adjustments related to the reclassification of certain amounts of cash held on deposit that were erroneously recorded in prepaid expenses and other current assets to cash and cash equivalents as discussed above, a $0.2 million adjustment related to the reclassification of software costs from prepaid expenses to CIP, and a $0.1 million adjustment to correct the accrual for royalty income at June 30, 2006. The first-quarter decrease in prepaid expenses and other current assets primarily relates to $0.2 million of reconciliation adjustments related to prepaid materials and a $0.2 million adjustment related to the reclassification of certain amounts held on deposit to cash and cash equivalents.

- Assets held for sale, net at June 30, 2006 include a reclassification adjustment for an additional $0.6 million of assets related to the Grand Junction facility from property and equipment to assets held for sale on the balance sheet.

- Property and equipment decreased by $0.3 million, or 2.1%, as March 31, 2006 and by $0.9 million, or 7.6%, as of June 30, 2006. The second-quarter decrease in property and equipment relates to the $0.6 million reclassification adjustment discussed above for assets held for sale related to the Grand Junction facility and $0.3 million of adjustments to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement. The first-quarter decrease in property and equipment relates primarily to adjustments to record additional depreciation expense for items placed in service that had not been removed from CIP accounts prior to the restatement.

- Accounts payable did not change as of March 31, 2006 but increased by $0.5 million, or 3.5%, as of June 30, 2006. The second-quarter increase in accounts payable is primarily a result of $0.5 million of reconciliation adjustments between the accounts payable sub-ledgers and the general ledger as a result of the Company s conversion to its new ERP system.

- Accrued liabilities increased by $0.3 million, or 2.8%, as of March 31, 2006 and by $0.8 million, or 7.1%, as of June 30, 2006. The second-quarter increase primarily relates to a $0.3 million adjustment to properly record the net unrealized loss on foreign currency hedging contracts, a $0.1 million adjustment for income taxes, a $0.1 million adjustment for royalty and relocation expenses, and the amounts accrued in the first quarter. The first-quarter increase primarily relates to a $0.2 million adjustment for professional fees for the 2005 financial statement audit partially offset by a tax credit of $0.1 million.

- Additional paid-in capital decreased $0.4 million as of March 31, 2006 to reflect a charge for stock issuance costs in 2005 as discussed above and for the correction of an error in recording treasury stock as previously discussed. Additional paid-in capital decreased $0.7 million as of June 30, 2006 which reflects a charge for stock issuance costs, an adjustment to correct a duplicate posting to the additional paid-in capital account, as discussed above, and for the correction of an error in recording treasury stock as previously discussed.

Other changes to the balance sheet line items were not material, individually or in the aggregate. Such changes included a balance-sheet reclassification for unrestricted cash, miscellaneous adjustments to inventory, adjustments to amortization for warranty and training revenue and an adjustment to correct the processing of payments received for restricted stock.

Consolidated Statements of Cash Flows. As a result of the restatement, cash and cash equivalents increased by $0.2 million as of March 31, 2006 and by $0.3 million as of June 30, 2006. Both of these increases were the result of a reclassification of unrestricted cash on the balance sheet as discussed above. Table 4 shows the impact that the errors corrected by the restatement had on the statements of cash flow.

Table 4

Changes in Consolidated Statement of Cash Flows	**Three months ended March 31, 2006 (amounts in $000s)**	**Six months ended June 30, 2006**
Net loss	$ (704)	$ (3,288)
Non-cash operating items	(42)	354
Changes to operating accounts	174	3,156
Net cash provided by (used in) operating activities	(572)	222
Cash provided by (used in) investing activities	510	431
Cash provided by financing activities	(2)	(217)
Effects of exchange rate changes on cash	64	(304)
Net increase (decrease) in cash and cash equivalents		132
Cash and cash equivalents, beginning of period	216	216
Cash and cash equivalents, end of period	$ 216	$ 348

For the three months ended March 31, 2006, on a restated basis:

- The $0.6 million decrease in net cash provided by operating activities primarily relates to the $0.7 million increase in net loss arising from the restatement, the $0.7 million decrease in accounts payable, the $0.1 million decrease in deferred revenue, and a nominal decrease in non-cash items that was offset by $1.0 million of cash provided by changes to operating accounts not mentioned above, including primarily changes to inventories, prepaid expenses and other current assets and other assets that occurred for the reasons discussed above.

- The $0.5 million increase in net cash provided by investing activities relates to the decrease in fixed asset purchases during the period offset in part by an increase in software development costs during the period as a result of the restatement adjustments.

For the six months ended June 30, 2006, on a restated basis:

- The $0.2 million increase in net cash provided by operating activities primarily relates to the $3.3 million increase in net loss arising from the restatement, the $0.2 million decrease in accounts payable and the $0.1 million decrease in customer deposits that was more than offset by $0.4 million increase in non-cash items, principally depreciation and amortization, and $3.5 million of cash provided by changes to operating accounts not mentioned above, including primarily changes to accounts receivable, inventories, prepaid expenses and other current assets and accrued liabilities that occurred for the reasons discussed above.

- The $0.4 million increase in net cash provided by investing activities relates to the decrease in fixed asset purchases during the period offset in part by increase in software development costs during the period as a result of the restatement adjustments.

- The $0.2 million decrease in net cash provided by financing activities relates primarily to the payment of dividends.

- There was a $0.3 million unfavorable impact from the effect of exchange rate changes on cash during the first six months.

Impact of Restatement on 2005 Consolidated Financial Statements

As a result of the errors that we identified at the end of the third quarter of 2006 and our evaluation of the impact on 2005 of the audit adjustments for periods prior to 2006 that we had previously considered to be nonmaterial, we have restated our consolidated financial statements for each calendar quarter in 2005 and for the year ended December 31, 2005. As discussed above, for the year ended December 31, 2005, on a restated basis:

- Total revenue decreased by $0.6 million or 0.4% from $139.7 million to $139.1 million;
- Total cost of sales increased by $0.4 million or 0.5% from $76.5 million to $76.9 million;
- Total operating expenses decreased nominally;
- Income from operations decreased by $0.9 million or 10.0% from $9.3 million to $8.4 million; and
- Income available to common stockholders decreased by $0.7 million or 8.1% from $8.4 million to $7.7 million.

The effects of that restatement on the 2005 quarterly periods are discussed below.

Condensed Consolidated Statements of Operations. Table 5 shows the effect of the restatement onthe 2005 quarterly statements of operations line items.

Table 5

Changes in Consolidated Statement of Operations	**2005 Quarter Ended** **March 31**	**June 30**	**September 30**	**December 31**
	(amounts in $000s)			
Revenue	$ (8)	$ (325)	$ (151)	$ (108)
Cost of sales	(21)	50	27	320
Gross profit	13	(375)	(178)	(428)
Operating expenses	14	37	43	(132)
Operating income	(1)	(412)	(221)	(296)
Interest and other expense, net	1	(48)	(5)	(10)
Income before income taxes	(2)	(364)	(216)	(286)
Income tax provision (benefit)				(191)
Net income	$ (2)	$ (364)	$ (216)	$ (95)

The changes in each period primarily relate to the following:

- Revenue decreased nominally for the first quarter of 2005, by $0.3 million (1.0%) for the second quarter, by $0.2 million (0.5%) for the third quarter and by $0.1 million (0.2%) for the quarter ended December 31, 2005. The decreases in revenue during the third and fourth quarters primarily relate to adjustments for credit memoranda for customers discussed above. These amounted to $0.2 million in the third quarter and $0.1 million in the fourth quarter. The decrease in revenue during the second quarter primarily relates to a $0.2 million adjustment related to amortization for warranty and training revenue and $0.1 million of adjustments for credit memoranda for customers discussed above.

- Cost of sales increased by $0.3 million (1.4%) for the fourth quarter and changed nominally in the other quarters. The increase in cost of sales during the fourth quarter primarily relates to the correction of the recognition of royalty expense.

- Operating expenses decreased by $0.1 million (0.8%) during the fourth quarter, and increased nominally for the first, second and third quarters. The decrease in the fourth quarter is the result of corrections made to capitalize stock issuance costs as a reduction of additional paid-in capital, offset in part by a combination of additional depreciation being recorded for assets placed in service and accrual of professional fees. The first-quarter, second-quarter and third-quarter increases primarily relate to additional depreciation being recorded for assets placed in service.

- The nominal changes to interest and other expense, net relate to an increase in interest income in the affected quarters.

- The income tax benefit recorded in the fourth quarter relates to the correction of a foreign tax provision in 2005 which was applicable to prior periods.

Condensed Consolidated Balance Sheets. Table 6 shows the impact of the restatement of our 2005 financial statements on the 2005 quarterly balance sheet line items.

Table 6

Changes in Consolidated Balance Sheet	**2005** **March 31** **(amounts in $000s)**	**June 30**	**September 30**	**December 31**
Current Assets:				
Cash	$ 295	$ 243	$ 242	$ 216
Accounts receivable	18	(61)	(225)	(406)
Inventory				850
Prepaid expenses and other current assets	(295)	(224)	(221)	(32)
Deposits				(216)
Total current assets	$ 18	$ (42)	$ (204)	$ 412
Other Assets:				
Property and equipment	$ (29)	$ (67)	$ (110)	$ (174)
Intangible assets, net				587
Other assets, net				(587)
	$ (29)	$ (67)	$ (110)	$ (174)
Current Liabilities:				
Current portion of long-term debt	$ 6	$ 6	$ 6	$ 7
Accounts payable				735
Accrued liabilities	(65)	(45)	(24)	142
Deferred revenue	(236)	10		(43)
Total current liabilities	$ (295)	$ (29)	$ (18)	$ 841
Other Liabilities:				
Long-term debt, less current portion	$ 29	$ 27	$ 26	$ 23
Other liabilities	(43)	(41)	(40)	(38)
Total other liabilities	$ (14)	$ (14)	$ (14)	$ (15)
Stockholders Equity	$ 298	$ (66)	$ (282)	$ (588)

The changes in each period primarily relate to the following:

- The increases in cash and cash equivalents in each period relate to the reclassification of unrestricted deposits from prepaid expenses and other current assets or deposits in the balance sheet to cash and cash equivalents in order to conform to the current presentation.

- The increase in accounts receivable as of March 31, 2005 primarily relates to an adjustment for recognition of warranty and training revenue while the decreases in accounts receivable as of June 30, 2005, September 30, 2005 and December 31, 2005 primarily relate to adjustments for credit memoranda for customers discussed above that were applicable to each period.

- Inventory increased by $0.9 million (6.1%) as of December 31, 2005 and nominally at each of the other balance sheet dates. The increase in inventory as of December 31, 2005 primarily relates to an increase in the accrual for inventory in transit from our suppliers where title had passed at year end.

- As noted above, the decreases in prepaid expenses and other current assets as of March 31, 2005, June 30, 2005 and September 30, 2005 primarily relate to the reclassification of amounts from prepaid expenses and other current assets to cash and cash equivalents in order to conform to the current presentation.

- As noted above, the decrease in deposits as of December 31, 2005 relates to the reclassification of amounts from deposits to cash and cash equivalents in order to conform to the current presentation.

- Intangible assets, net increased by $0.6 million or 7.3% as of December 31, 2005 and was unchanged in the other periods. Other assets, net decreased by $0.6 million or 37.3% as of December 31, 2005 and was unchanged in the other periods. These changes were the result of a reclassification of amounts between the two line items on the balance sheet.

- Accrued liabilities decreased by $0.1 million or 0.6% at March 31, 2005, nominally by 0.5% at June 30, 2005, nominally by 0.2% at September 30, 2005 and increased by $0.1 million or 1.2%, at December 31, 2005. The fourth quarter was impacted by $0.2 million of adjustments, related to the reclassification of securities registration costs.

- Deferred revenue decreased by $0.2 million (1.7%) as of March 31, 2005 and changed by nominal amounts as of the last day of the second and fourth quarters. The first-quarter decrease in deferred revenue relates to a $0.2 million adjustment to recognition of warranty and training revenue.

Other changes to the balance sheet line items for the 2005 periods were not material, individually or in the aggregate. Such changes include miscellaneous adjustments to inventory, additional depreciation expense for items placed in service which had not been depreciated prior to restatement and miscellaneous reconciliation adjustments.

Condensed Consolidated Statements of Cash Flows. The restatement of our 2005 financial statements resulted in increases in cash and cash equivalents of $0.3 million as of March 31, 2005 and $0.2 million as of June 30, 2005, September 30, 2005 and December 31, 2005, respectively. These increases were the result of reclassifications within the balance sheet to conform to current presentation. Table 7 sets forth the impact of the restatement on our 2005 quarterly statements of cash flow.

Table 7

Changes in Consolidated Statement of Cash Flows	**Three months ended March 31, 2005**	**Six months ended June 30, 2005**	**Nine months ended September 30, 2005**	**Year ended December 31, 2005**
	(amounts in $000s)			
Net income	$ (2)	$ (366)	$ (582)	$ (677)
Non-cash operating items	113	402	97	162
Changes to operating accounts	(119)	(75)	439	560
Net cash provided by (used in) operating activities	(8)	(39)	(46)	45
Cash provided by (used in) investing activities	87	79	87	177
Cash provided by financing activities	1	2	3	(208)
Effects of exchange rate changes on cash	(14)	(28)	(31)	(27)
Net increase (decrease) in cash and cash equivalents	66	14	13	(13)
Cash and cash equivalents, beginning of period	229	229	229	229
Cash and cash equivalents, end of period	$ 295	$ 243	$ 242	$ 216

The changes in each period primarily relate to the following:

For the year ended December 31, 2005, on a restated basis:

- The nominal increase in net cash provided by operating activities for the year primarily relates to the $0.7 million reduction in net income for the year that was more than offset by cash generated from $0.6 million of changes to operating accounts and a $0.2 million increase in depreciation and other non-cash items. The changes in operating accounts were primarily due to changes in accounts receivable, inventories, accounts payable, accrued liabilities and deferred revenue.

- The $0.2 million decrease in net cash used in investing activities for the year relates to the $0.1 million reduction in purchases of property and equipment and the $0.1 million reduction in software development costs.

- The increase in net cash provided by operating activities and decrease in net cash used in investing activities was offset by a $0.2 million decrease in net cash provided by financing activities resulting from a decrease in securities issuance costs included in those cash flows.

For the nine months ended September 30, 2005, the $0.6 million decline in net income arising from the restatement was more than offset by an increase in non-cash items and changes in operating accounts, and a decrease in net cash used in investing activities.

Similarly, for the six months ended June 30, 2005, the $0.4 million decline in net income and the $0.1 million decrease in changes to operating accounts arising from the restatement was more than offset by an increase in non-cash items and a decrease in net cash used in investing activities.

For the three months ended March 31, 2005, the nominal decrease in net income and the $0.1 million decrease in changes to operating accounts arising from the restatement was offset by an increase in non-cash items and a decrease in net cash used in investing activities.

Impact of the Restatement on 2004 Consolidated Financial Statements

As a result of the errors that we identified at the end of the third quarter of 2006 and our evaluation of the impact on our 2004 consolidated financial statements of the audit adjustments for periods prior to

2006 that we had previously considered to be nonmaterial, we have restated our consolidated financial statements for the year ended December 31, 2004.

Condensed Consolidated Statement of Operations. Table 8 shows the effect of the restatement on our consolidated statement of operations for the year ended December 31, 2004.

Table 8

Changes in Consolidated Statement of Operations	**Year Ended December 31, 2004 (amounts in $000s)**
Revenue	$ 231
Cost of sales	(234)
Gross profit	465
Operating expenses	4
Operating income	461
Interest and other expense, net	2
Income before income taxes	459
Income tax provision (benefit)	
Net income	$ 459

The changes in our operating results in 2004 arising out of the restatement primarily relate to the following:

- Revenue increased by $0.2 million or 0.2% for the year. The increase in revenue primarily relates to a $0.2 million adjustment of amortization for warranty and training revenue.

- Cost of sales decreased by $0.2 million or 0.5%. This decrease primarily relates to a $0.3 million adjustment of royalty expense which was overstated in 2004 and understated in 2005.

- As a result of these changes, net income increased by $0.5 million or 44.7%.

Consolidated Balance Sheet. Table 9 shows the impact of the restatement of our 2004 consolidated balance sheet line items.

Table 9

Changes in Consolidated Balance Sheet	**December 31, 2004 (amounts in $000s)**
Current Assets:	
Cash	$ 229
Accounts receivable	(13)
Inventory	(18)
Prepaid expenses and other current assets	(50)
Deposits	(229)
Total current assets	$ (81)
Other Assets:	
Property and equipment	$ 71
Intangible assets, net	584
Other assets, net	(584)
	$ 71
Current Liabilities:	
Current portion of long-term debt	$ 6
Accounts payable	35
Accrued liabilities	(112)
Deferred revenue	(225)
Total current liabilities	$ (296)
Other Liabilities:	
Long-term debt, less current portion	$ 36
Other liabilities	(50)
Total other liabilities	$ (14)
Stockholders Equity	$ 300

The changes in the December 31, 2004 consolidated balance sheet primarily relate to the following:

- The increase in cash and cash equivalents relates to the reclassification of amounts from deposits in the balance sheet to cash and cash equivalents as discussed above.

- As noted above, the decrease in deposits as of December 31, 2004 relates to the reclassification of amounts from deposits to cash and cash equivalents in order to conform to the current presentation.

- Intangible assets, net increased by $0.6 million as a result of a reclassification of certain other assets on the balance sheet.

- Accrued liabilities decreased by $0.1 million or 0.8% as of December 31, 2004. This decrease relates to a $0.3 million adjustment of the royalty expense which was overstated in 2004 and understated in 2005 offset in part by a $0.2 million adjustment to increase the foreign tax liability.

- Deferred revenue decreased by $0.2 million or 1.6% as of December 31, 2004. This decrease relates to a $0.2 million adjustment of amortization for warranty and training revenue.

- Stockholders equity increased by $0.3 million or 0.6% as of December 31, 2004. This increase arose from the $0.5 million increase in net income for the year ended December 31, 2004 as a result of the

restatement adjustments and was partially offset by the cumulative effect of restatement adjustments prior to 2004.

Other changes to the consolidated balance sheet line items at December 31, 2004 were not material, individually or in the aggregate. Such changes included miscellaneous adjustments to inventory, additional depreciation expense for items placed in service which had not been removed from CIP accounts prior to restatement and miscellaneous reconciliation adjustments.

Consolidated Statement of Cash Flows. The restatement of our financial statements for the year ended December 31, 2004 resulted in a $0.2 million increase in cash and cash equivalents as of December 31, 2004. This increase was the result of a reclassification within the balance sheet to conform to current presentation.. Table 10 sets forth the impact of the restatement on our consolidated statement of cash flow at December 31, 2004.

Table 10

Changes in Consolidated Statement of Cash Flows	**Year ended December 31, 2004 (amounts in $000s)**
Net income	$ 459
Changes to operating accounts	(799)
Net cash provided by operating activities	(340)
Cash provided by financing activities	1
Effects of exchange rate changes on cash	14
Net increase (decrease) in cash and cash equivalents	(325)
Cash and cash equivalents, beginning of period	554
Cash and cash equivalents, end of period	$ 229

As shown in Table 10, as a result of the restatement, cash provided by operating activities decreased $0.3 million for the year ended December 31, 2004. The $0.5 million increase in net income arising from the restatement was more than offset by restated changes to operating accounts. These items primarily included a $0.3 million increase in deposits, a $0.3 million decrease in accrued liabilities and a $0.2 million decrease in deferred revenue.

The restatement did not affect cash used in investing activities and nominally affected cash provided by financing activities for the year ended December 31, 2004.

Recent Developments

As we have previously disclosed, during 2006, we have been engaged in several major projects that we expect to create long-term benefits. These include:

- The implementation of a new enterprise resource planning (ERP) system;
- The outsourcing of our spare-parts and certain of our finished goods supply activities to a third-party logistics management company in the U.S. and Europe;
- Our pending relocation to Rock Hill, South Carolina;
- Establishment of an internal, centralized shared service center in Europe, which commenced operation in conjunction with the implementation of our ERP system in Europe in the second quarter of 2006; and
- Completion of the transfer of our InVision® materials production line to our Marly, Switzerland facility, which commenced operations in the first quarter of 2006.

During the second quarter of 2006, we experienced disruptions and adverse effects from the implementation of our new ERP system, supply chain staffing issues, and the outsourcing of our spare-parts and certain of our finished goods supply activities to a logistics management company. These matters adversely affected our revenue, operating results, cash flow and working capital management in the second quarter of 2006. These effects are discussed in greater detail below.

As a result of these disruptions and adverse effects, we identified control deficiencies in our procedures for reconciling and compiling our financial records for the second quarter of 2006 and in our procedures for accounting for inventory that we believe constitute individually or in the aggregate a material weakness with respect to those matters. See Item 4. Controls and Procedures below. We are taking remedial actions to correct these disruptions, adverse effects and weaknesses, but we can provide no assurance that they will not continue to affect our operations in future periods.

During the first six months of 2006, we also experienced some growing pains as our initial success in the fourth quarter of 2005 and the first quarter of 2006 in placing new Sinterstation® Pro, Viper Pro and 3-D Printing systems stretched our field engineering resources and presented some stability issues with certain installed systems.

ERP implementation

During the second quarter of 2006, we started up a new ERP system in the United States and in most of our European operations. The new ERP system replaces several legacy systems in which a significant portion of our business transactions originated, were recorded and were processed. This system is intended to provide us with improved transactional processing, control and management tools compared to the various legacy systems that we have historically used, and we believe that once fully implemented and operational, our new ERP system will facilitate better transactional reporting and oversight, improve our internal control over financial reporting and function as an important component of our disclosure controls and procedures.

We currently expect the worldwide implementation of our ERP system to involve a total investment in excess of $4.0 million in transactional automation and analysis tools and technology. At June 30, 2006, our capitalized investment in our ERP system amounted to $2.6 million. Such costs are recorded as property and equipment on our balance sheet at June 30, 2006. See Note 5 to the Condensed Consolidated Balance Sheet.

Our new ERP system includes numerous accounting functions as well as order processing, materials purchasing and inventory management functions. In connection with and following the implementation of the new ERP system and the disruptions that we encountered with respect to it in the second quarter of 2006, as well as the identification of the control deficiencies described here and in Item 4. Controls and Procedures below, we are revising our financial reporting policies and procedures to conform them to the requirements of this system and remediate the causes of the disruptions we encountered.

During the first quarter of 2006, our ERP implementation program included hiring new staff in Rock Hill for training and testing of the new system while existing staff continued to perform those functions in our Valencia, California facility using our legacy systems. Consequently, during the first six months of 2006, we incurred duplicate staffing costs and incurred additional costs for some temporary staffing as a result of the combined effects of relocation and new-system start-up work. The amount of these costs that we have expensed amounted to $0.6 million in the second quarter and $1.3 million in the first six months of 2006. Such costs were not material in the second quarter and first six months of 2005.

Operation of the new ERP system began in the U.S. on May 1, 2006 and in most of Europe in mid-June 2006. Although we believe that the ERP system ultimately will facilitate better transactional reporting and oversight and will augment the effectiveness of our internal control over financial reporting and our

disclosure controls and procedures, shortly after the initial start up of the system, we encountered significant problems in processing transactions in the system that affected our ability to enter and process customer orders, procure and manage inventory, schedule orders for production and shipping and invoice finished products to customers.

In particular, following the start up of the new ERP system, we noted that the resulting disruptions exposed control deficiencies in our procedures for accounting for inventory and for reconciling and compiling our financial records at quarter-end. Specifically, with respect to inventory, we identified a difference in the inventory values recorded in the legacy systems as a result of which they exceeded those included in the ERP system. We conducted extensive confirmatory data integrity checks and physical inventories that enabled us to reconcile many of these differences, and we recorded the remaining $0.4 million difference in cost of sales for the second quarter and first six months of 2006.

These ERP system and other supply chain disruptions, combined with the difficulties we had with the outsourcing of the logistics and warehousing of our spare parts inventory discussed below, led to shortages of parts, resulting in loss of parts revenue, higher service and expediting costs and the need to compensate customers who were adversely affected by these shortages. These shortages also delayed shipments of finished products, which reduced revenue recognized in the second quarter and first six months of 2006 and resulted in an additional $8.3 million of backlog for orders placed during the second quarter that we were not able to ship during the quarter.

We have since determined that the difficulties that we experienced with the ERP system resulted from various factors, including:

- Conversion of our legacy systems to the new ERP system;
- Errors in the data files imported or migrated from the legacy systems to the new ERP system;
- Training of personnel with respect to the mechanics of the system conversion and the operation of the new ERP system; and
- Errors in entering necessary data into the new ERP system after the start up of the system.

These problems, and in particular the delays in processing, completing and invoicing sales, adversely affected our revenue, operating results, cash flow and working capital management in the second quarter and first six months of 2006 as discussed in greater detail below.

As a result of these systems implementation and operation issues, we have postponed the implementation of certain additional functions and capabilities of the ERP system until we have remediated the current problems with the ERP system.

Although ERP implementations are frequently difficult for an organization, we believe that we have made and continue to make significant progress in rectifying the problems we have identified with the execution of our procedures for accounting for inventory and for reconciling and compiling the Company s financial records at quarter-end. In particular, we have:

- corrected data entry and migration errors with respect to pricing and unit data;
- compiled and entered additional data such as serial numbers and other identifying information necessary for the new ERP system to accept and properly process and account for orders;
- expanded the number of highly trained super users of the system and provided additional training to personnel responsible for operating and interfacing with the ERP system; and
- reconciled discrepancies noted in the inventory sub-ledger values in the legacy system versus the corresponding values determined through physical inventories and other confirmatory actions and

written off $0.4 million of inventory value to cost of goods sold based on the reconciliation in the second quarter of 2006.

Logistics and warehousing outsourcing

During the second quarter of 2006, we outsourced the logistics and warehousing of our spare parts inventory as well as certain finished products in the U.S. and Europe to a major logistics management company. Commencement of these outsourcing arrangements coincided with the start up dates of the ERP system in the U.S. and Europe. After these outsourcing arrangements commenced, we determined that there were certain problems with respect to the recording, management and shipment of inventory that was either delivered to the logistics management company or that such company shipped in response to customer orders. We believe that these problems further contributed to our negative second-quarter results by producing further disruptions in our supply chain and inventory management functions, which negatively impacted the fulfillment of customer orders during the second quarter of 2006.

In particular, we determined that in some cases our third-party provider did not timely reflect the status of shipped orders, resulting in discrepancies in our inventory counts and, in limited cases, duplicate shipments of products. In addition, a limited number of parts returned for repair or refurbishment were incorrectly placed in our regular parts inventory at the logistics company s warehouses, resulting in additional warranty claims, service calls and additional expense in meeting the needs of those customers who received these products in error.

We believe that we have identified the scope and extent of these problems and that they resulted primarily from human error in transitioning these logistics and warehousing functions to a third-party provider. We are currently implementing additional procedures intended to both produce more timely and accurate reporting on the status of orders and to prevent these types of errors from occurring. In particular, we have provided training and oversight controls for shipping, receiving and return processes. We have also implemented faster communication connection speeds with the logistics management company which we believe will improve both response time and processing time at their warehouses. We believe that these unrelated logistics and warehousing issues exacerbated the problems resulting from the start up of our ERP system described above and in Item 4. Controls and Procedures that appears below and adversely impacted our revenue, operating results, cash flow and working capital management in the second quarter and first six months of 2006.

New systems

We have found that our new, sophisticated, advanced Sinterstation® Pro, Viper Pro and 3-D Printing systems, with their broader range of capabilities, require more extensive commissioning and training to achieve operating stability and operating potential than some of our legacy systems. As a result of the high volume of sales of these systems that we have experienced in recent quarters, issues relating to the stability of these systems and the need to work closely with our customers to resolve stability issues in a mutually beneficial manner and to provide more extensive customer training support and installation activities than the traditional services provided with our legacy systems, we have experienced field service resource constraints that have led to delayed start-up of some systems, and we have experienced higher warranty and related costs that have adversely affected our gross profit and operating results in the second quarter and first six months of 2006.

Relocation project

During the first six months of 2006, we opened an interim facility in Rock Hill, South Carolina, began to hire employees to replace departing employees, replicated functions in Rock Hill that were previously being performed at our Valencia and Grand Junction facilities and entered into a lease, which we have

previously disclosed, for the construction of our new headquarters and research and development facility in Rock Hill. We also began work on exiting and disposing of our Valencia and Grand Junction facilities. The restructuring and severance costs associated with these activities, which for the first six months of 2006 amounted to $3.9 million and were generally in line with our previously announced expectations, adversely affected our profitability in the second quarter and first six months of 2006, and we expect that they will continue to hurt our profitability for the remainder of 2006.

We expect to take occupancy of our new headquarters building during 2006. In August 2006, we entered into an amendment to the lease of that facility in which we agreed to pay $2.1 million for certain tenant improvements and change orders necessary to complete that facility.

Grand Junction facility

We ceased operations at the Grand Junction facility on April 28, 2006. Effective May 1, 2006, we reclassified the net assets associated with the facility, which amounted to $3.5 million, from long-term assets to current assets on our Condensed Consolidated Balance Sheet, where they have been recorded as assets held for sale. As a result of the closing of the Grand Junction facility, we expect its subsequent carrying costs to decline, and following its closing we ceased to record depreciation expense related to this facility, which amounted to $0.6 million per year. See Note 5 to the Condensed Consolidated Financial Statements.

We listed the Grand Junction facility for sale during the first quarter of 2006, and on July 27, 2006 we entered into an agreement to sell the facility for a cash purchase price of $7.3 million, an amount in excess of its net book value. The consummation of this transaction is subject to the satisfaction of certain customary conditions. During the second quarter of 2006, we realized $0.1 million in net proceeds from the sale of certain personal property associated with this facility that we no longer needed for our operations. Based upon and assuming the completion of these transactions, we expect to realize an amount from the disposition of the Grand Junction facility and its related assets in excess of their net book value and in excess of the $3.6 million remaining outstanding balance of the industrial development bonds covering the facility. See Note 8 to the Condensed Consolidated Financial Statements.

Conversion of Series B convertible preferred stock

On June 8, 2006, following a conditional call for redemption that we issued on May 8, 2006, all of our then outstanding Series B Convertible Preferred Stock was converted by its holders into 2,639,772 shares of Common Stock, including 23,256 shares of Common Stock covering accrued and unpaid dividends to June 8, 2006. Following this conversion, we filed a certificate of elimination with the Delaware Secretary of State eliminating the Series B Convertible Preferred Stock from our certificate of incorporation and restoring the shares of preferred stock previously covered by the certificate of designations of the Series B Convertible Preferred Stock to the status of authorized but unissued shares of preferred stock. See Note 9 to the Condensed Consolidated Financial Statements.

During the second quarter of 2006, we recognized $1.0 million of dividend cost, including $0.9 million of non-cash cost associated with the write-off of the initial offering costs that remained unaccreted as of June 8, 2006 and dividends accrued from May 5 to June 8, 2006. As a consequence of the conversion of the Series B Convertible Preferred Stock, commencing with the third quarter of 2006, we will no longer record $0.4 million of quarterly dividend cost with respect to the Series B Convertible Preferred Stock.

New alliances and products

During the first six months of 2006, we announced several new alliances, including:

- We entered into an agreement with Symyx Technologies, Inc. early in the second quarter pursuant to which we are working together to discover and commercialize advanced materials for use in our rapid prototyping and rapid manufacturing solutions. As we move forward with this research and development project, we will fund up to $2.4 million of research by Symyx over a two-year period, and we expect Symyx to develop new materials formulations that we anticipate will be made available to our customers for specialized rapid prototyping applications as well as rapid manufacturing applications.

- During the second quarter, we entered into agreements in principle with two outside service providers to broaden our ability to provide service to our stereolithography and selective laser sintering customers.

- During the first quarter, we reached an agreement in principle with DSM Somos to cross-license certain patents and other intellectual property related to stereolithography materials.

- During the first quarter, we announced a strategic collaboration with Materialise, one of the leaders in software industry s development for rapid prototyping and manufacturing, to distribute jointly their Magics product line worldwide.

In addition, since the beginning of 2006, we have announced several new products, including:

- A 30% faster model of our InVision® LD 3-D printer;

- A new dental lab system, the InVision® DP (Dental Professional), which is capable of producing castable wax-ups for dental copings and bridges;

- A new suite of software, 3DView , 3DManage and 3DPrint , for our stereolithography systems, selective laser sintering systems and InVision® 3-D printers that we expect to provide numerous productivity and cost-saving benefits to our customers;

- Accura® 60 Plastic, a new stereolithography material that simulates the look and feel of molded polycarbonate; and

- New VisiJet® LD100 materials in two new colors, red and blue.

Revenue from sales of the new products discussed above did not have a material impact on our operating results for the second quarter or the first six months of 2006.

Summary of operating results

As discussed above, we have restated our financial statements for the first two quarters of 2006, for 2005 and each of the quarters in that year and for the year ended December 31, 2004. All of the financial information and discussion set forth below reflects the effects of the restatement on the periods presented. For a discussion of the effects of the restatement on financial information that was previously reported for the periods discussed below, refer to Note 2 to the Condensed Consolidated Financial Statements and to the discussion that appears above in this MD&A entitled Restatement of Financial Statements**.**

Primarily as a result of the disruptions that we experienced in the second and third quarters from the implementation of our ERP system and the outsourcing of our logistics and warehousing activities discussed above but cushioned by our stronger performance in the first quarter of 2006:

- Consolidated revenue decreased 16.4% in the second quarter of 2006 and 3.3% in the first six months of 2006 compared to the respective 2005 periods, as restated;

- Revenue from materials increased 5.4% in the second quarter and 11.3% in the first six months of 2006 compared to the prior-year periods, as restated;

- Revenue from systems and other products decreased 35.0% in the second quarter and 8.2% in the first six months of 2006 compared with the prior-year periods, as restated;

- Revenue from services decreased 18.8% in the second quarter and 13.3% in the first six months of 2006 compared to the 2005 periods, as restated; and

- Revenue decreased in the U.S, Asia and European operations in the second quarter compared to the same periods in 2005, as restated. Revenue for the U.S. operations increased $1.4 million in the first six months of 2006 compared with the same period in the prior year while revenue in the European and Asia operations declined by $2.5 million or 10.4% and $1.0 million or 10.1%, respectively, in the first six months of 2006 compared with the same period in the prior year, as restated.

In addition, for the second quarter of 2006:

- we recorded a $10.3 million loss from operations compared to $1.3 million of income from operations in the second quarter of 2005; and

- we recorded a $11.5 million net loss available to common stockholders in the second quarter as compared to $0.5 million of net income available to common stockholders in the 2005 period.

And for the first six months of 2006:

- we recorded a $11.7 million loss from operations compared to $3.0 million of operating income in the first six months of 2005; and

- we recorded a $13.5 million net loss available to common stockholders as compared to $1.3 million of net income available to common stockholders in the 2005 period.

Results of Operations

Table 11 below sets forth, for the periods indicated, revenue and percentages of revenue by class of product and service.

Table 11

	Three months ended June 30						**Six months ended June 30**			
	2006 Restated (dollars in thousands)			**2005 Restated**			**2006 Restated**		**2005 Restated**	
Systems and other products	$ 7,451	27.5	%	$ 11,459	35.3	%	$ 19,830	32.6 %	$ 21,604	34.4 %
Materials	11,482	42.3		10,894	33.6		23,355	38.4	20,987	33.4
Services	8,198	30.2		10,091	31.1		17,589	29.0	20,277	32.2
Consolidated revenue	$ 27,131	100.0	%	$ 32,444	100.0	%	$ 60,774	100.0 %	$ 62,868	100.0 %

Consolidated revenue

As discussed above, the principal factors affecting our consolidated revenue in the second quarter of 2006 compared with the 2005 quarter were the disruptions arising from the ERP system implementation and the outsourcing of our logistics and warehousing activities and the growth challenges that we incurred as a result of our recent new systems introductions that led to, among other things, shortages of parts resulting in loss

of parts revenue, higher costs of goods sold and delayed shipments of finished products. These factors overshadowed in the second quarter of 2006 the factors that normally affect our consolidated revenue, including changes in new product revenue, the combined effect of changes in product mix and

66

average selling prices, and the effect of foreign currency translation. Revenue from legacy products continued to decline in the second quarter and the first six months of 2006, consistent with its past trend, but revenue from new products failed to keep pace with its prior pace of growth in the second quarter of 2006.

As used in this management s discussion and analysis, the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix, relates to changes in product-line revenue that are not able to be specifically related to changes in unit volume or foreign currency translation. Among these changes are changes in the product mix among our systems as the trend toward smaller, more economical systems that has affected our business for the past several years has continued and the influence of new products has grown.

For the second quarter of 2006, our consolidated revenue decreased 16.4% to $27.1 million from $32.4 million for the second quarter of 2005. This decrease was primarily due to the disruptions and challenges discussed above. Sales of new products and services introduced since the latter part of 2003 increased by $1.3 million to $8.6 million in the second quarter of 2006, representing approximately one-third of revenue for the quarter.

For the first six months of 2006, our consolidated revenue decreased 3.3% to $60.8 million from $62.9 million for the first six months of 2005. This decrease was primarily due to the disruptions and challenges that affected the second quarter discussed above and was partially offset by our revenue growth in the first quarter of 2006. Sales of new products and services introduced since the latter part of 2003 increased by $6.7 million to $18.0 million in the first six months of 2006, representing approximately one-third of revenue for the six-month period.

Changes in Revenue in the Quarterly Periods. The components of the $5.3 million decline in revenue by class of product and service for the second quarter of 2006 are shown in Table 12, together with the corresponding percentage of that change compared to the 2005 level of revenue for that product or service.

Table 12 (Restated)

	Systems and Other Products (dollars in thousands)		Materials		Services		Net Change in Consolidated Revenue	
Volume Core products and services	$ (4,101)	(35.8)%	$ (8)	(0.1)%	$ (1,823)	(18.1)%	$ (5,932)	(18.3)%
Volume New products	617	5.4	756	6.9	(23)	(0.2)	1,350	4.2
Price/mix	(521)	(4.6)	(11)	(0.1)			(532)	(1.7)
Foreign currency translation	(3)	0.0	(149)	(1.3)	(47)	(0.5)	(199)	(0.6)
Net change in consolidated revenue	$ (4,008)	(35.0)%	$ 588	5.4 %	$ (1,893)	(18.8)%	$ (5,313)	(16.4)%

As set forth in Tables 11 and 12:

- Revenue from systems and other products decreased by 35.0% to $7.5 million in the second quarter of 2006 from $11.5 million in the second quarter of 2005. Revenue from systems and other products was 27.5% and 35.3% of consolidated revenue for the second quarters of 2006 and 2005, respectively.

The decrease in revenue from systems and other products was primarily due to a $4.1 million decrease in unit volume of our mature systems and the low increase in unit volume of our new systems that we believe were due primarily to the disruptions discussed above, which significantly impacted our ability to place, process and fill customer orders in the ordinary course. Revenues from new products showed a modest increase that was more than offset by price and mix effects and foreign currency translation to a lesser degree in the second quarter of 2006.

- Revenue from materials increased 5.4% to $11.5 million for the second quarter of 2006 from $10.9 million for the second quarter of 2005. Revenue from materials was 42.3% and 33.6% of consolidated revenue for the second quarters of 2006 and 2005, respectively.

The increase in revenue from materials was primarily due to a $0.8 million increase in unit sales of new products which was offset by $0.2 reduction in core product revenue, price/mix and foreign currency translation.

- Revenue from services decreased 18.8% to $8.2 million for the second quarter of 2006 from $10.1 million for the second quarter of 2005. Revenue from services represented 30.2% and 31.1% of consolidated revenue for the second quarter of 2006 and 2005, respectively.

The decrease in revenue from services was principally due to a $1.8 million net decrease in unit volume, which we believe is primarily attributable to the disruptions and challenges discussed above.

In the ordinary course, orders and sales for our systems tend to fluctuate on a quarterly basis as a result of a number of factors, including the types of systems ordered by customers, customer acceptance of newly introduced products, the timing of product orders and shipments, global economic conditions and fluctuations in foreign exchange rates. Our customers generally purchase our systems as capital equipment items, and their purchasing decisions may have a long lead-time. Due to the relatively high list price of certain systems and the overall low unit volume of sales in any particular period, the acceleration or delay of orders and shipments of a small number of systems from one period to another can significantly affect revenue reported for our systems sales for the period involved. Revenue reported for systems sales in any particular period is also affected by revenue recognition rules prescribed by generally accepted accounting principles.

Backlog has historically not been a significant factor in our business, reflecting our relatively short production and delivery lead times. However, we had approximately $9.8 million of booked orders outstanding at June 30, 2006, primarily for systems and materials, all of which we expect to ship in 2006. This unusually high order backlog includes approximately $8.3 million of orders that we believe primarily reflects the supply chain, ERP system and other disruptions that we encountered during the second quarter, which significantly impaired our ability to place, process and fill customer orders, as discussed in Recent Developments above and in Item 4. Controls and Procedures below. We also expect our gross profit margins to return to more normal levels as these disruptions are resolved.

Since the beginning of the third quarter, the corrective action plan that we have implemented enabled us to process and ship the majority of the new order backlog we had at the end of the second quarter of 2006. Although there can be no assurance that all of the remaining outstanding orders ultimately will result in sales to and revenue from customers, we believe that our second-quarter backlog and our progress in shipping it suggests, first, that the demand for our products and services remains strong and, but for the disruptions that we experienced during the second quarter in filling customer orders, would have contributed to a significantly better second quarter than we experienced and, second, that we are making real progress in correcting these disruptions.

Changes in Revenue in the Six-Month Period. As shown in the Tables 11 and 13, the $2.1 million decrease in consolidated revenue for the first six months of 2006 was lower than the decrease for the second quarter of 2006, primarily due to our increase in revenue in the first quarter of 2006. After giving effect to net changes in unit volume in the first six months of 2006 and the favorable $1.5 million price-mix

effect in that period, most of the six-month decline in revenue was due to the $1.5 million adverse effect of foreign currency translation, most of which arose in the first quarter of 2006.

Sales of new products and services introduced since the latter part of 2003 increased by $6.7 million to $18.0 million in the first six months of 2006. Foreign currency translation had an unfavorable $1.5 million impact on consolidated revenue for the first six months of 2006 due to the strengthening of foreign currencies compared to the U.S. dollar on a period-to-period basis. The partially offsetting effect of product mix and average selling prices on revenue from systems and other products in the six-month period was primarily due to favorable price and mix effects from sales of materials that were partially offset by unfavorable price and mix effects from the sale of systems.

Table 13 (Restated)

	Systems and Other Products (dollars in thousands)		**Materials**		**Services**		**Net Change in Consolidated Revenue**	
Volume Core products and services	$ (6,197)	(28.7)%	$ (175)	(0.8)%	$ (2,406)	(11.9)%	$ (8,778)	(13.9)%
Volume New products	4,233	19.6	2,303	11.0	129	0.6	6,665	10.6
Price/mix	570	2.6	966	4.6			1,536	2.4
Foreign currency translation	(380)	(1.8)	(726)	(3.5)	(411)	(2.0)	(1,517)	(2.4)
Net change in consolidated revenue	$ (1,774)	(8.3)%	$ 2,368	11.3 %	$ (2,688)	(13.3)%	$ (2,094)	(3.3)%

As set forth in Tables 11 and 13:

- Revenue from systems and other products decreased 8.3% to $19.8 million in the first six months of 2006 from $21.6 million in the first six months of 2005. Revenue from systems and other products was 32.6% and 34.4% of consolidated revenue for the first six months of 2006 and 2005, respectively.

The $1.8 million decrease in revenue from systems and other products reflects the second-quarter disruptions discussed above and was primarily due to $6.2 million of unit volume decreases from our core products and $0.4 million of unfavorable foreign currency translation which were partially offset by $4.8 million of unit volume increases from our newer systems and favorable price/mix effects.

- Revenue from materials increased 11.3% to $23.4 million for the first six months of 2006 from $21.0 million for the first six months of 2005. Revenue from materials represented 38.4% and 33.4% of consolidated revenue for the first six months of 2006 and 2005, respectively.

The $2.4 million increase in revenue from materials was primarily due to $2.3 million arising from higher unit sales of new products and $1.0 million of favorable price and mix effects partially offset by a $0.9 million unfavorable effect of foreign currency translation and a nominal decline in core product unit volume.

- Revenue from services decreased 13.3% to $17.6 million for the first six months of 2006 from $20.3 million for the first six months of 2005. Revenue from services represented 28.9% and 32.3% of consolidated revenue for the first six months of 2006 and 2005, respectively.

The $2.7 million decrease in revenue from services was principally due to the disruptions and challenges discussed above and included $2.4 million of lower unit volume and a net $0.4 million unfavorable effect of foreign currency translation.

Revenue by geographic region

Primarily as a result of the disruptions discussed above and the resulting decline in unit volume, our revenue declined in each geographic area in which we conduct business during the second quarter of 2006. For the first six months of 2006, an increase in revenue in the U.S., reflecting stronger performance in that

69

region in the first quarter of 2006, was more than offset by a decrease in revenue in Europe and the Asia-Pacific region. Revenue by geographic area in which we operate is shown in Table 14.

Table 14

	Three months ended June 30				Six months ended June 30			
	2006 Restated (dollars in thousands)		2005 Restated		2006 Restated		2005 Restated	
U.S. operations	$ 11,988	44.2 %	$ 14,734	45.4 %	$ 30,382	50.0 %	$ 28,979	46.1 %
European operations	10,400	38.3	12,869	39.7	21,512	35.4	24,016	38.2
Asia-Pacific operations	4,743	17.5	4,841	14.9	8,880	14.6	9,873	15.7
Consolidated revenue	$ 27,131	100.0 %	$ 32,444	100.0 %	$ 60,774	100.0 %	$ 62,868	100.0 %

Changes in Revenue in the Quarterly Periods. The components of the changes in revenue by geographic region for the second quarter of 2006 are shown in Table 15, together with the corresponding percentage of that change compared to the level of revenue for the corresponding 2005 period for that geographic area.

Table 15 (Restated)

	U.S. (dollars in thousands)		Europe		Asia-Pacific		Net Change in Consolidated Revenue	
Volume	$ (1,169)	(7.9)%	$ (2,209)	(17.3)%	$ (121)	(2.5)%	$ (3,499)	(10.8)%
Price/mix	(1,577)	(10.7)	(273)	(2.1)	235	4.9	(1,615)	(5.0)
Foreign currency translation			13	0.1	(212)	(4.4)	(199)	(0.6)
Net change in consolidated revenue	$ (2,746)	(18.6)%	$ (2,469)	(19.3)%	$ (98)	(2.0)%	$ (5,313)	(16.4)%

On a consolidated geographic basis, our $5.3 million decrease in revenue in the second quarter of 2006 resulted from $3.5 million of lower volume, $1.6 million from the unfavorable combined effect of price and mix and $0.2 million from the unfavorable effect of foreign currency translation.

As set forth in Tables 14 and 15:

- Revenue from U.S. operations decreased by 18.6% to $12.0 million for the second quarter of 2006 from $14.7 million for the second quarter of 2005. This decrease was primarily due to lower unit volume and the effect of price and mix that we believe was primarily due to the disruptions discussed above. Revenue from U.S. operations was 44.2% and 45.4% of consolidated revenue for the second quarters of 2006 and 2005, respectively.

- Revenue from operations outside the U.S. decreased by 14.5% to $15.1 million in the second quarter of 2006 from $17.7 million in the 2005 quarter but increased to 55.8% of consolidated revenue for the second quarter of 2006 from 54.6% of consolidated revenue for the second quarter of 2005, reflecting the effect of the lower growth in revenue in the U.S. Excluding the favorable effect of foreign currency translation, revenue from operations outside the U.S. would have been 56.5% of consolidated revenue for the second quarter of 2006.

- Revenue from European operations decreased by $2.5 million or 19.2% to $10.4 million for the second quarter of 2006 from $12.9 million for the second quarter of 2005. This decrease was due to lower unit volume and the combined effect of price and mix, partially offset to an immaterial extent by the favorable effect of foreign currency translation. European revenue was 38.3% and 39.7% of consolidated revenue for the second quarters of 2006 and 2005, respectively.

- Revenue from Asia-Pacific operations decreased 2.0% to $4.7 million for the second quarter from $4.8 million for the second quarter of 2005. This decrease resulted primarily from lower unit volume

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and the unfavorable effects of foreign currency translation, partially offset by the combined effect of price and mix. Asia-Pacific revenue represented 17.5% and 14.9% of consolidated revenue for the second quarters of 2006 and 2005, respectively.

Changes in Revenue in the Six-Month Periods. The components of the $2.1 million decrease in revenue as they relate to geographic region for the first six months of 2006 are shown in Table 16, together with the corresponding percentage of that change compared to the level of revenue for the corresponding period of the prior year for that geographic area.

Table 16 (Restated)

(dollars in thousands)	U.S.		Europe		Asia-Pacific		Net Change in Consolidated Revenue	
Volume	$ 1,844	6.3 %	$ (1,526)	(6.4)%	$ (682)	(6.9)%	$ (364)	(0.6)%
Price/mix	(441)	(1.5)	(2)	(0.0)	230	2.3	(213)	(0.3)
Foreign currency translation			(976)	(4.1)	(541)	(5.5)	(1,517)	(2.4)
Net change in consolidated revenue	$ 1,403	4.8 %	$ (2,504)	(10.5)%	$ (993)	(10.1)%	$ (2,094)	(3.3)%

As set forth in Tables 14 and 16:

- Revenue from U.S. operations increased by $1.4 million or 4.8% to $30.4 million for the first six months of 2006 from $29.0 million for the first six months of 2005. The growth in revenue from U.S. operations was primarily due to higher unit volume and the combined effect of price and mix derived from first-quarter operating results. Revenue from U.S. operations represented 50.0% and 46.1% of consolidated revenue for the first six months of 2006 and 2005, respectively.

- Revenue from operations outside the U.S. decreased by $3.5 million or 10.3% to $30.4 million for the first six months of 2006 from $33.9 million for the first six months of 2005 and decreased to 50.0% of consolidated revenue for the first six months of 2006 from 53.9% of consolidated revenue for the first six months of 2005, reflecting the effect of the higher growth in revenue in the U.S. excluding the $1.5 million unfavorable effect of foreign currency translation, revenue from operations outside the U.S. would have decreased 5.7% for the first six months of 2006 compared to the first six months of 2005.

- Revenue from European operations decreased by $2.5 million or 10.4% to $21.5 million for the first six months of 2005 from $24.0 million for the first six months of 2004. This decrease was primarily due to lower unit volume and the unfavorable effect of foreign currency translation. European revenue represented 35.4% and 38.2% of consolidated revenue for the first six months of 2006 and 2005, respectively.

- Revenue from Asia-Pacific operations decreased by $1.0 million or 10.1% to $8.9 million for the first six months of 2006 from $9.9 million for the first six months of 2005. This decrease in revenue resulted primarily from lower unit volume and the unfavorable effect of foreign currency translation, partially offset by the favorable combined effect of price and mix. Asia-Pacific revenue represented 14.6% and 15.7% of consolidated revenue for the first six months of 2006 and 2005, respectively.

Costs and margins

As shown in Table 17 below, gross profit declined for both the second quarter and first six months of 2006 compared to the respective 2005 periods. Gross profit margin declined by 21.6 percentage points in the second quarter compared to the second quarter of 2005 and by 10.9 percentage points in the first six months of 2006 compared to the 2005 period. This decline was due to the combined effects of our lower

revenue, the ERP system, supply chain and logistics disruptions that we encountered in the second quarter of 2006 and special accommodations that we extended to certain customers whose orders for our products or services or for repairs to systems were delayed by the disruptions we encountered with our ERP system and our logistics activities or who encountered stability issues with their equipment installations that we were not able to quickly address as a result of resource constraints on our service organization. The decline in gross profit margin also includes the $0.4 million difference in inventory value discussed in *ERP Implementation* above that is included in cost of sales for the second quarter of 2006.

Table 17

	Three months ended June 30				Six months ended June 30			
	2006 Restated		2005 Restated		2006 Restated		2005 Restated	
	Amount	% Revenue	Amount	% Revenue	Amount	% Revenue	Amount	% Revenue
	(dollars in thousands)							
Products	$ 4,443	23.5 %	$ 10,076	45.1 %	$ 15,685	36.3 %	$ 20,039	47.0 %
Services	1,393	17.0 %	3,894	38.6 %	3,756	21.4 %	6,949	34.3 %
Total	$ 5,836	21.5 %	$ 13,970	43.1 %	$ 19,441	32.0 %	$ 26,988	42.9 %

Second-Quarter Comparison. For the second quarter of 2006, cost of sales increased 15.3% to $21.3 million from $18.5 million for the 2005 quarter, representing 78.5% and 56.9% of consolidated revenue for the respective periods. Foreign currency transaction items had a $0.2 million unfavorable effect on cost of sales compared with the 2005 quarter. Gross profit decreased to $5.8 million from $14.0 million representing 21.5% and 43.1% of total revenue for the 2006 and 2005 second quarters, respectively.

Our gross profit margin on products decreased to 23.5% in the second quarter of 2006 from 45.1% for the second quarter of 2005. The dramatic decrease in margins reflects higher warranty expense as a result of the $0.4 million difference in inventory value that we charged to cost of goods sold discussed above, the ERP system and logistics disruptions, the equipment stability issues discussed above and higher freight costs. Margins were also negatively impacted by lower revenue from higher margin systems.

Gross profit margin on services decreased to 17.0% of consolidated service revenue for the second quarter of 2006 from 38.6% of consolidated service revenue for the second quarter of 2005. Service margins continued to be impacted by the strains on field service resources related to installation, service and training that resulted in foregone service revenue from time and materials service activities. Service margins were also impacted by the lower sales of upgrades for older legacy systems, some of which we have previously announced that we would no longer support.

Six-Month Comparison. For the first six months of 2006, cost of sales increased 15.2% to $41.3 million from $35.9 million for the 2005 six-month period, representing 68.0% and 57.1% of consolidated revenue for the respective periods. Foreign currency transaction items had a $1.3 million favorable effect on cost of goods compared with the first six months of 2005. Gross profit decreased to $19.4 million or 32.0% of total revenue for the first six months of 2006 from $27.0 million or 42.9% of total revenue for the 2005 period.

As a result of the factors discussed above, gross profit margin for products decreased in the first six months of 2006 to 36.3% from 47.0% for the first six months of 2005, and gross profit margin on services decreased to 21.4% of consolidated service revenue from 34.3% of consolidated service revenue for the first six months of 2005.

Operating expenses

As shown in Table 18, total operating expenses increased by $3.5 million or 27.8% to $16.2 million in the second quarter of 2006 compared to $12.6 million in the second quarter of 2005, and by $7.1 million or

29.5% to $31.1 million in the first six months of 2006 compared to $24.0 million in the first six months of 2005.

Table 18

	Three months ended June 30				Six months ended June 30			
	2006 Restated		2005 Restated		2006 Restated		2005 Restated	
	Amount	% Revenue	Amount	% Revenue	Amount	% Revenue	Amount	% Revenue
	(dollars in thousands)							
Selling, general and administrative expenses	$ 10,910	40.2 %	$ 9,937	30.6 %	$ 20,967	34.5 %	$ 18,647	29.7 %
Research and development expenses	2,974	11.0	2,701	8.3	6,231	10.3	5,376	8.6
Severance and restructuring costs	2,280	8.4	7		3,918	6.4	7	
Total	$ 16,164	59.6 %	$ 12,645	38.9 %	$ 31,116	51.2 %	$ 24,030	38.3 %

Second-Quarter Comparison. As noted above, operating expenses in the second quarter of 2006 increased $3.5 million, amounting to 59.6 % of revenue in that quarter compared to 38.9% of revenue in the second quarter of 2005. The increase in operating expenses as a percentage of revenue primarily reflects our lower level of revenue in the second quarter of 2006, and the dollar increase in operating expenses was due primarily to $2.3 million of severance and restructuring costs related to the relocation of our headquarters to Rock Hill, South Carolina, which were generally in line with our previously announced expectations, $1.1 million of higher selling, general, and administrative expenses, and $0.3 million of higher research and development expenses, which are discussed in greater detail below.

Six-Month Comparison. As noted above, operating expenses in the first six months of 2006 increased by $7.1 million, amounting to 51.2% of revenue in that period compared to 38.3% of revenue in the first six months of 2005. More than half of that increase related to the severance and restructuring costs referred to above. The increase in the first six months of 2006 was primarily due to:

- $3.9 million of severance and restructuring costs, which were generally in line with our previously announced expectations;
- $2.3 million higher selling, general and administrative expenses; and
- $0.9 million of higher research and development expenses,

which are discussed in greater detail below.

Selling, general and administrative expenses

As shown in Table 18 above, for the second quarter of 2006, selling, general and administrative expenses were $1.0 million higher than those for the second quarter for 2005, and for the first six months of 2006 selling, general and administrative expenses increased 12.4% to $21.0 million from $18.7 million in the first six months of 2005.

Second-Quarter Comparison. The $1.0 million increase in selling, general and administrative expenses in the second quarter of 2006 was due primarily to:

- $0.8 million of higher consulting expenses;
- $0.3 million of higher bad debt expense;

- $0.4 million increase in equity compensation expense arising from our adoption on January 1, 2006 of SFAS No. 123R (see Note 11 to the Condensed Consolidated Financial Statements); and

- $0.2 million, net of various other expense categories,

partially offset by

- $0.4 lower commissions; and
- $0.3 million of lower legal expenses.

Six-Month Comparison. The $2.3 million increase in selling, general and administrative expenses in the first six months of 2006 was due primarily to:

- $1.6 million of higher consulting expenses;
- $0.5 million of higher bad debt expense;
- a $0.4 million increase in equity compensation expense arising from our adoption on January 1, 2006 of SFAS No. 123R (see Note 11 to the Condensed Consolidated Financial Statements);
- $0.4 million of higher travel expenses; and
- a variety of other expenses, including expenses associated with the disruptions and growth challenges discussed above,

partially offset by

- $0.2 lower commissions; and
- $0.3 million of lower legal costs.

As previously disclosed, beginning on January 1, 2006, we began to expense previously issued equity awards for which service has not been rendered as required by Statement of Financial Accounting Standards (SFAS) No. 123R, which relates to the expensing of stock options and certain other equity compensation. As of June 30, 2006, we estimate our maximum expense for subsequent periods related to existing stock options as a result of the adoption of SFAS No. 123R to be approximately $0.9 million, of which $0.4 million would be recognized during the latter half of 2006 and the remainder would be recognized for 2007. This projected expense will change if any stock options are granted, which we do not expect to occur, or cancelled prior to the respective reporting periods.

Research and development expenses

Research and development expenses rose 10.1% to $3.0 million in the second quarter of 2006 from $2.7 million in the second quarter of 2005. For the six-month period, such expenses rose 15.9% to $6.2 million in 2006 from $5.4 million in 2005. In both periods, these costs reflect our continued high levels of new product development work. We anticipate that research and development expenses for the full year of 2006, including those expenses for the first six months of 2006, will be in the range of $12.0 to $14.0 million due to increased activity with selected projects, including our agreement with Symyx Technologies, Inc., which we announced early in the second quarter and which is discussed above.

Severance and restructuring costs

Severance and other restructuring costs amounted to $2.3 million in the second quarter of 2006 and $3.9 million in the first six months of 2006. Severance and restructuring costs were nominal in the second quarter and first six months of 2005. These 2006 costs related primarily to costs incurred in connection with our pending relocation to Rock Hill, South Carolina, and they primarily included personnel, relocation and recruiting costs.

We estimate that, during 2006 and including the costs we incurred in the first six months of 2006, the total pretax costs to complete this relocation and consolidation should be in the range of $6.4 million to $8.1 million. This amount includes estimated cash expenditures for moving costs and other costs related to personnel, relocation and recruiting and up to $1.7 million of facility exit costs. These estimated 2006 costs

74

do not include an estimated $0.1 million of non-cash costs related to accelerated amortization and asset impairments that we expect to incur. Included in the range of facility exit costs is an estimate of costs that may be incurred if we encounter delays in disposing of the Grand Junction facility, which we own, closed at the end of April 2006 and agreed in July 2006 to sell, and the Valencia facility, which we lease. We have not adjusted these estimates to reflect the effect of the closing of the Grand Junction facility at the end of April 2006 or the agreement we entered into to sell that facility late in July 2006. However, we believe that those events should not have a material adverse effect on our estimates.

In addition to other significant operational and strategic improvements that we expect to achieve from our relocation project, we project that we should realize facilities and operating-cost savings in excess of $2.5 million per year beginning in 2007, the first full year of planned operations in Rock Hill, SC. We also believe that South Carolina will provide a favorable business climate, significant investment and tax benefits and a sustained lower cost of doing business. We believe these savings should provide a substantial return on the anticipated investment in up-front moving and other costs, and we expect them to translate into long-term improvements in profitability.

Except for the costs incurred through June 30, 2006, all of the foregoing cost estimates and anticipated savings relating to our relocation project are provided solely as estimates. There can be no assurance that our estimates will not change as we proceed with this project, that actual expenditures will not differ from our estimates, or that anticipated savings and efficiencies will be realized.

Income (loss) from operations

As a result of our lower revenue and gross profit and our higher level of operating expenses in the second quarter of 2006, we reported a $10.3 million loss from operations compared to $1.3 million of operating income for the second quarter of 2005.

For the first six months of 2006, we reported an $11.7 million loss from operations, reflecting the operating losses that we reported for both the first and second quarters of 2006, compared to $3.0 million of operating income for the 2005 period.

Depreciation and amortization included in income (loss) from operations was $1.8 million for the three months and $3.4 million for the six months ended June 30, 2006 compared to $1.6 million for the three months and $3.2 million for the six months ended June 30, 2005. We expect annual depreciation and amortization to be in the range of $6.0 to $7.0 million for the full year of 2006 compared to $5.8 million for the full year of 2005.

Interest and other expense, net

Interest and other expense, net, which consists primarily of interest income and interest expense, increased to $0.2 million in the second quarter of 2006 from $0.1 million in the second quarter of 2005 and decreased to $0.3 million for the first six months of 2006 from $0.5 million for the first six months of 2005. These changes resulted from lower investment income arising from the investment of our excess cash and cash equivalents in the 2006 periods and $0.1 million of net proceeds in the second quarter of 2006 from the disposition of surplus assets at our Grand Junction facility that partially offset interest expense on our outstanding indebtedness in each period.

Provisions for (benefit of) income taxes

Income taxes were not material in any of the periods included in this Form 10-Q/A.

Net income (loss) and net income (loss) available to common stockholders

Reflecting our $10.3 million operating loss in the second quarter and the other factors discussed above, we recorded an $10.5 million net loss for the second quarter of 2006 due to the effect of net interest and other expense and tax provisions, compared to $0.9 million of net income in the 2005 quarter.

Net loss available to common stockholders for the second quarter of 2006 was $11.5 million after giving effect to accrued dividends and accretion of preferred stock issuance costs with respect to our Series B Convertible Preferred Stock. On a per share basis, basic and diluted net loss per share available to the common stockholders in the second quarter was $0.71.

Net income available to common stockholders for the second quarter of 2005 was $0.5 million after giving effect to accrued dividends and accretion of preferred stock issuance costs with respect to the Series B Convertible Preferred Stock. On a per share basis, diluted income per share available to the common stockholders in the second quarter of 2005 was $0.03. The dilutive effect of outstanding stock options was included in diluted income per share in the 2005 period.

As discussed elsewhere in this Form 10-Q/A, we do not expect to record preferred stock dividend cost in future periods as a result of the conversion of our Series B Convertible Preferred Stock into Common Stock in June 2006. This should reduce dividend cost by $1.6 million per year in future periods.

Liquidity and Capital Resources

Our principal source of liquidity during the second quarter and first six months of 2006 was cash and cash equivalents shown on our consolidated balance sheet.

Working capital

Our net working capital decreased to $35.3 million at June 30, 2006 from $43.5 million at March 31, 2006 and from $43.8 million at December 31, 2005. The restatement of our consolidated financial statements for the first six months of 2006 accounted for $1.9 million of the net decline in working capital for the six-month period. See Note 2 to the Condensed Consolidated Financial Statements (Restated). The $8.5 million decrease in working capital in the first six months of 2006 was primarily the result of:

- an $11.3 million decrease in cash and cash equivalents that occurred for the reasons discussed below;

- a $4.4 million increase in accounts payable arising from the timing of payments and disruptions arising out of the ERP implementation;

- a $3.4 million increase in current installments of long-term debt arising from the reclassification of the outstanding principal amount of the industrial development bonds related to our Grand Junction facility from long-term debt to a current liability in view of our plans to dispose of that facility within the next twelve months;

- a $2.5 million net decrease in accounts receivable that occurred for the reasons discussed below (see Table 12); and

- a $1.0 million increase in customer deposits related primarily to delayed shipments during the second quarter of 2006,

that more than offset

- a $7.4 million increase in inventories that occurred for the reasons discussed below;

76

- a $1.2 million increase in restricted cash related to the Industrial Development Bonds and the sale of the Grand Junction facility as a result of reclassification of this amount from long-term to current assets. See Note 8 to these financial statements.

- a $3.5 million increase in assets held for sale arising from the reclassification of the net assets of the Grand Junction facility following its closing on April 28, 2006;

- a $0.8 million decrease in accrued liabilities primarily reflecting the timing of the accrual and payment of those liabilities in the ordinary course;

- a $1.1 million decrease in deferred revenue reflecting recognition of maintenance and warranty revenue during the second quarter and delayed shipments of new systems.

As shown in Table 21 below, the $11.3 million decrease in cash and cash equivalentsarose primarily from $8.1 million of cash used in operating activities, $3.7 million of cash used in investing activities and the $0.6 million effect of exchange rate changes on cash in the first six months of 2006, partially offset by $1.1 million of cash generated by financing activities. See *Cash flow* below for a discussion of the factors that affected these items of cash flow in the first six months of 2006.

As discussed elsewhere in this Form 10-Q/A, we currently expect to realize an amount in excess of the $3.5 million in net assets of the Grand Junction facility after giving effect to the repayment of the $3.6 million of industrial development bonds outstanding with respect to that facility.

Components of inventories were as follows:

Table 19

	June 30, 2006 Restated	**December 31, 2005 Restated**
	(dollars in thousands)	
Raw materials	$ 609	$ 207
Inventory held by assemblers	946	417
Work in process	58	55
Finished goods	20,640	14,131
	$22,253	$ 14,810

The higher level of inventory at June 30, 2006 on a restated basis arose from $6.5 million of higher finished goods inventory that we incurred to support our anticipated higher level of sales for the second quarter of 2006, which we did not recognize for the reasons discussed above, and a $0.5 million increase in inventory held by assemblers and a $0.4 increase in raw materials inventory. Finished goods inventory also included costs associated with a portion of the $8.3 million of systems, materials and spare parts covered by customer orders that, as discussed elsewhere in this Form 10-Q/A, we were not able to ship during the second quarter of 2006 due to the disruptions related to our ERP system implementation and supply chain issues discussed above.

The $7.4 million increase in inventory shown in Table 19 and on the consolidated balance sheets resulted from the cash-flow-related $6.8 million increase in net inventory set forth on the consolidated statement of cash flows and a $0.6 million increase from the favorable effect of foreign currency translation.

In connection with the outsourcing activities that we have entered into with our third-party assemblers, we have sold to them components of our raw materials inventory related to those systems. We record those sales in our financial statements as a product financing arrangement under SFAS No. 49, Accounting for Product Financing Arrangements. At June 30, 2006, $0.9 million of the inventory sold to assemblers remained in inventory, and we had a corresponding accrued liability representing our non-

contractual obligation to repurchase assembled systems and refurbished parts produced from such inventory. At June 30, 2006, inventory held by assemblers and our corresponding accrued liability had increased to $0.9 million compared to $0.4 million at December 31, 2005.

With the outsourcing of substantially all of our equipment assembly and refurbishment activities, most of our inventory now consists of finished goods including primarily systems, materials and service parts, as our third-party assemblers have taken over supply-chain responsibility for the assembly and refurbishment of systems. As a result of our third-party assemblers having assumed supply-chain responsibility for systems assembly and refurbishment, we generally no longer hold in inventory most parts for systems production or refurbishment. In calculating inventory reserves, we direct our attention to spare parts that we hold in inventory and that we expect to be used over the expected life cycles of the related systems, to inventory related to the blending of our engineered materials and composites and to our ability to sell items that are recorded in finished goods inventory, a large portion of which are new systems.

Our prepaid expenses and other current assets, which amounted to $9.5 million at June 30, 2006 and $9.3 million at December 31, 2005, also include amounts attributable to our arrangements with our outsource suppliers, which amounts affect our working capital. The components of prepaid expenses and other current assets were as set forth in Table 20:

Table 20

	June 30, 2006 Restated	December 31, 2005 Restated
	(dollars in thousands)	
Progress payments to assemblers	$ 5,590	$ 5,271
Non-trade receivables	921	1,051
Other	2,943	2,953
Total	$ 9,454	$ 9,275

The non-trade receivables shown in Table 20 together with inventory held by assemblers shown in Table 19, and a related accrued liability in an amount that corresponds to the book value of inventory held by assemblers included in accrued liabilities on our balance sheet relate to the accounting for our outsourcing arrangements pursuant to SFAS No. 49. The non-trade receivables shown in Table 20 decreased by $0.1 million from December 31, 2005 to $0.9 million at June 30, 2006 as a result of a decrease in parts that our third-party assemblers purchased from us to complete the assembly of systems.

The decrease in accounts receivable, net resulted from changes in our revenue and collections from period to period. Days sales outstanding (DSO) increased to 101 days at June 30, 2006 compared to 68 days at December 31, 2005. Accounts receivable more than 90 days past due were 20.7% of receivables at June 30, 2006 compared to 5.1% of receivables at December 31, 2005. Factors that affected accounts receivable, net in the first six months of 2006, as restated, included our lower revenue and the related timing of invoicing and collection, the disruptions that we encountered in the start up of our new ERP system that, among other things, delayed shipments to customers and the invoicing and collection of receivables, the issues with certain customers related to the stability of their installed systems that are discussed above, and the recording of credit memoranda as part of our restatement that reduced accounts receivable.

The changes in the first quarter of 2006 in the other items of working capital not discussed above arose in the ordinary course of business. Differences not discussed above between the amounts of working capital item changes in the cash flow statement and the amount of balance sheet changes for those items are primarily the result of foreign currency translation adjustments.

Cash flow

Table 21 summarizes the cash provided by or used in operating activities, investing activities and financing activities, as well as the effect of changes in foreign exchange rates on cash, for the first six months of 2006 and 2005.

Table 21

	Six months ended June 30 2006 Restated (in thousands)	2005 Restated
Cash used in operating activities	$ (8,075)	$(2,924)
Cash used in investing activities	(3,729)	(1,391)
Cash provided by financing activities	1,060	5,789
Effect of exchange rate changes on cash	(584)	385
Net increase (decrease) in cash and cash equivalents	$ (11,328)	$ 1,859

Cash flow from operations

Our operations used $8.1 million of net cash in the first six months of 2006. This use of cash was generated primarily by our $12.1 million net loss for the period partially offset by $4.0 million of net changes in operating accounts and non-cash items discussed below:

- a $4.3 million increase in accounts payable;
- a $5.0 million increase in non-cash items;
- a $3.2 million net reduction of accounts receivable; and
- a $1.0 million increase in customer deposits.

partially offset by

- a $7.3 million increase in inventories;
- a $1.5 million decrease in deferred revenue;
- a $1.1 million decrease in accrued liabilities.

In addition to the reasons for these changes that are discussed in *Working capital* above, cash flow from operations was adversely affected in the second quarter and the first six months of 2006 by the disruptions discussed above from the start up of our ERP system, supply chain activities and outsourcing of our spare parts warehousing and logistics activities that led, among other things, to shortages of parts and delays in both shipping finished products and invoicing our customers. These invoicing and shipping delays reduced our receivables balance, delayed collections from customers and largely accounted for the increase in our finished goods and in-transit inventory. At the same time, we purchased and paid for a large portion of the products that we had planned to sell to our customers, which reduced our available working capital.

Our operations used $2.9 million of net cash in the first six months of 2005. Such cash included our $2.1 million of net income, that was more than offset by the $5.1 million combined net effect of non-cash items, including depreciation and amortization, and changes in operating assets and operating liabilities in the ordinary course of business. Such non-cash items and changes in operating assets and operating liabilities included a net reduction in cash resulting from:

- a $3.7 million decrease in accrued liabilities;
- a $0.2 million increase in inventory;

- a $3.6 million increase in prepaid expenses and other current assets;
- a $1.7 million decrease in accounts payable;
- a $0.7 million decrease in deferred revenue; and
- a $0.4 million net decrease arising from other operating accounts;

partially offset by

- a $0.2 million decrease in lease receivable;
- $3.3 million of non-cash items, primarily comprised of depreciation and amortization and stock compensation expense;
- a $1.7 million reduction in accounts receivable, net; and
- a $0.1 million decrease in customer deposits;
- a $0.1 million change in other operating accounts.

The effects of the restatement on cash flows from operations as well as working capital for the first six months of 2006 and 2005 are discussed in Note 2 to the financial statements as well as in the MD&A under Restatement of Financial Statements

Cash used for investing activities

We used $3.7 million of net cash for investing activities in the first six months of 2006 compared to $1.4 million in the first six months of 2005, including $3.5 million of capital expenditures for property, plant and equipment in the first six months of 2006. In the first six months of 2006, we also recognized $0.2 million of cash from the net proceeds of sale of property and equipment, primarily related to our Grand Junction facility. In each period, the principal uses of cash for investment purposes were for capital expenditures, patent and license rights and software development costs. The increase in the first six months of 2006 was due to higher levels of capital expenditures in the 2006 period compared to the first six months of 2005.

Capital expenditures were, as noted above, $3.5 million in the first six months of 2006 compared to $0.7 million in the first six months of 2005, primarily for information technology systems and hardware related to the implementation of our ERP system and for capital expenditures related to our corporate headquarters relocation project. As a result of our recent agreement to pay $2.1 million of tenant improvement and change-order costs necessary to complete our new headquarters and R&D facility, we expect our capital expenditures for the full year of 2006 to be in the range of $7.2 million to $8.5 million, of which approximately $4.3 million, which does not include the developer s cost for construction of the new facility that we have agreed to lease, relates to equipment, furnishings and tenant improvement and change-order costs related to our relocation project.

Cash provided by financing activities

Net cash provided by financing activities in the first six months of 2006 decreased to $1.1 million from $5.8 million in the first six months of 2005. In each period, such cash was provided primarily by the net proceeds of stock option exercises and was offset partially by scheduled payments of principal on our outstanding industrial development bonds and payments of other obligations. The reduction in cash provided by financing activities was due primarily to lower proceeds from stock options, a trend which we expect to continue due to our discontinuation of granting stock options in 2004 and the lower number of stock options currently outstanding.

Liquidity

As discussed above, our principal source of liquidity for the first six months of 2006 was the cash and cash equivalents on our consolidated balance sheet. As noted above, our unrestricted cash and cash equivalents decreased by $11.3 million to $13.0 million at June 30, 2006 from $24.3 million at December 31, 2005 due to $11.8 million of cash used in operating and investing activities, partially offset by cash provided by financing activities.

Outstanding debt

Our outstanding debt at June 30, 2006 and December 31, 2005 was as follows:

Table 22

	June 30, 2006		**December 31,2005**	
	(dollars in thousands)			
Line of credit	$		$	
Industrial development revenue bonds:				
Current portion of long-term debt	$	3,645	$	200
Long-term debt, less current portion			3,545	
Total	$	3,645	$	3,745
Installment note:				
Current portion of installment note	$	7	$	7
Installment note, less current portion	20		23	
Total	$	27	$	30
Subordinated debt:				
6% convertible subordinated debentures	$	22,354	$	22,604
Total current portion of debt	$	3,652	$	207
Total long-term portion of debt	22,374		26,172	
Total debt	$	26,026	$	26,379

At June 30, 2006, the carrying value of our total debt had declined by $0.4 million as a result of scheduled principal payments during the first three months of 2006 on our floating-rate industrial development bonds and the conversion of $0.2 million of our 6% convertible subordinated debentures during the second quarter of 2006. At June 30, 2006 due to our plans to sell the Grand Junction facility, we reclassified the entire outstanding principal amount of that debt as current portion of long-term debt. The $3.6 million principal balance will be due under the industrial development bonds upon the sale of the Grand Junction facility. No principal payments are required to be made under our 6% convertible subordinated debentures until their maturity in November 2013. As discussed below, no borrowings were outstanding under our line of credit at June 30, 2006 or December 31, 2005.

Silicon Valley Bank loan and security agreement

We maintain a loan and security agreement with Silicon Valley Bank that is scheduled to expire on July 1, 2007. This credit facility, as amended, provides that we and certain of our subsidiaries may borrow up to $15.0 million 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 our 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 2.25%. We are obligated to pay, on a quarterly basis, a commitment fee equal to 0.375% per annum of the unused amount of the facility.

The facility, as amended, imposes certain limitations on our 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 our Common Stock. The facility also requires us to maintain (a) a quick ratio (as defined in the credit facility) of at least 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 as of December 31, 2005 and at the end of each calendar quarter thereafter. The credit facility also requires that we maintain, on a trailing four-quarter basis, EBITDA (as defined in the credit facility) in an amount not less than $18 million for certain periods ending on or before December 31, 2005 and $15 million for each test period ended on or after March 31, 2006. We believe that we were in compliance with these financial covenants at December 31, 2005, except for the minimum EBITDA covenant, which non-compliance the Bank agreed to waive. We obtained a waiver from our compliance with certain of these financial covenants as of June 30, 2006.

At June 30, 2006 and December 31, 2005, we had $1.7 million of foreign exchange forward contracts outstanding with Silicon Valley Bank. See Note 7 to the Condensed Consolidated Financial Statements. No borrowings or letters of credit were outstanding under this facility at either June 30, 2006 or December 31, 2005, and as of June 30, 2006, we did not expect to borrow under this credit facility.

Industrial development bonds

Our Grand Junction, Colorado facility was financed by industrial development bonds in the original aggregate principal amount of $4.9 million. At June 30, 2006, the outstanding principal amount of these bonds was $3.6 million. Interest on the bonds accrues at a variable rate of interest and is payable monthly. The interest rate at June 30, 2006 was 3.2%. Principal payments are due in semi-annual installments through August 2016. We have 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 us and Wells Fargo. We are 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 $1.2 million of restricted cash that Wells Fargo holds in an non-interest-bearing account. Wells Fargo has a security interest in that account as partial security for the performance of our obligations under the reimbursement agreement. We have the right, which we have 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 in that account.

The reimbursement agreement, as amended, contains financial covenants that require, among other things, that we maintain a minimum tangible net worth (as defined in the reimbursement agreement) of $23.0 million 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. We are required to demonstrate our compliance with these financial covenants as of the end of each calendar quarter. As of December 31, 2005, we believe that we were in compliance with these financial covenants both before and after giving effect to the restatement. As of the period ended June 30, 2006 (after giving effect to the restatement), we were not in compliance with the fixed-charge coverage ratio. On January 24, 2007, Wells Fargo agreed to waive this non-compliance in consideration of the payment by us of a $36 non-refundable waiver fee.

As discussed above, we ceased operations at our Grand Junction facility at the end of April 2006, and entered into an agreement on July 27, 2006 to sell the facility subject to satisfaction of certain customary conditions. At the time we sell the facility, we expect to either pay off these bonds or, with the approval of Wells Fargo, have them assumed by a qualified buyer. Accordingly, at June 30, 2006, we reclassified these bonds from long-term debt to current installments of long-term debt. See Note 5 to the Condensed Consolidated Financial Statements. Once our obligations under these bonds have been satisfied, we expect the restricted cash referred to above to be released to us.

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 at the option of the holders at any time prior to maturity at $10.18 per share, subject to customary anti-dilution adjustments. They are currently convertible into approximately 2.2 million shares of Common Stock.

We have the right to redeem the debentures, in whole or in part, commencing on November 24, 2006 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 we undergo a change in control (as defined), the holders may require us 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). At the time the debentures were issued, we granted registration rights to the purchasers of the debentures pursuant to which, subject to certain terms and conditions, we agreed to file a registration statement to register for resale under the Securities Act, the shares of Common Stock into which the debentures are convertible. The conditions to our obligation to file such registration statement have not yet been satisfied, and no such registration statement is currently pending.

Derivative financial instruments

As of June 30, 2006, we had entered into forward currency contracts related to our future liabilities for purchases of inventory from suppliers and amounts due under inter-company accounts receivable from subsidiaries. These contracts are denominated in Swiss francs, euros, pounds sterling and Japanese yen. At June 30, 2006, the notional amount of the forward currency contracts at their respective settlement dates amounted to approximately $11.5 million. The notional amount of the contracts related to purchases aggregated approximately Swiss francs 2.2 million (equivalent to approximately $1.7 million at settlement date.) The respective notional amounts of the contracts related to inter-company accounts receivable at June 30, 2006 aggregated approximately euro 3.8 million (equivalent to approximately $4.8 million at settlement date), approximately pounds sterling 0.6 million (equivalent to approximately $1.0 million at settlement date) and approximately Japanese yen 460 million (equivalent to approximately $4.0 million at settlement date).

See Note 7 to the Condensed Consolidated Financial Statements (Restated) for additional information regarding these arrangements.

Series B convertible preferred stock

On June 8, 2006, following a conditional call for redemption that we issued on May 8, 2006, all of our then outstanding Series B Convertible Preferred Stock was converted by its holders into 2,639,772 shares of Common Stock, including 23,256 shares of Common Stock covering accrued and unpaid dividends to June 8, 2006. During the second quarter of 2006, we recognized $1.0 million of dividend cost, including approximately $0.6 million associated with the write-off of initial offering costs that remained unaccreted as of June 8, 2006. As a consequence of the conversion of the Series B Convertible Preferred Stock, commencing with the second quarter of 2006, we will no longer record approximately $0.4 million of quarterly dividend cost with respect to the convertible preferred stock. Following this conversion, we filed a certificate of elimination with the Delaware Secretary of State eliminating the Series B Convertible Preferred Stock from our certificate of incorporation and restoring the shares of preferred stock previously covered by the certificate of designations of the Series B Convertible Preferred Stock to the status of authorized but unissued shares of preferred stock.

On May 5, 2003, we privately placed approximately 2.6 million shares of Series B Convertible Preferred Stock at a price of $6.00 per share with institutional and accredited investors. Net proceeds of this offering were approximately $15.2 million after deducting approximately $0.6 million of offering expenses. We recorded the offering expenses as a reduction to the face value of the redeemable preferred stock, and such expenses were being accreted as dividends over ten years. The Series B Convertible Preferred Stock accrued dividends, on a cumulative basis, at $0.60 per share each year while it remained outstanding. Prior to May 6, 2004, the cumulative dividend rate was $0.48 per share per year. Dividends were paid semi-annually on May 5 and November 5 of each year while these shares remained outstanding. The Series B Convertible Preferred Stock was convertible at any time at the option of the holders on a share-for-share basis into shares of our Common Stock, plus the amount of accrued and unpaid dividends on the shares converted.

Stockholders equity

Stockholders equity increased 10.6% to $76.2 million at June 30, 2006 from $68.9 million at December 31, 2005. This increase resulted from the $16.8 million increase in Common Stock and additional paid-in capital arising primarily from the conversion of the Series B Preferred Stock to Common Stock, net proceeds from the exercise of stock options, and the fair market value of restricted stock granted in the 2006 period, partially offset by our net loss available to common stockholders for the first six months of 2006.

The effect of the restatement of our condensed consolidated financial statements for the six months ended June 30, 2006 was to reduce the increase in stockholders equity described above by $4.0 million, compared to the increase from $69.5 million to $80.2 million reported in the Form 10-Q as originally filed. The $4.0 million difference between the increase in stockholders equity as restated and as originally reported is primarily attributable to the $2.6 million increase in the net loss available to common stockholders in the six-month period, as described in greater detail in Note 2 to the Condensed Consolidated Financial Statements (Restated) and elsewhere in this report.

Critical Accounting Policies and Significant Estimates

For a discussion of our critical accounting policies and estimates, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2005.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize the impact of a tax position in our financial statements if that position is more likely than not of being sustained on audit, based on technical merits of this position. The provisions of FIN 48 become effective as of January 1, 2007, with any cumulative effect of the change in accounting principle to be recorded as an adjustment to our accumulated earnings (loss) at that date. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

In February 2006, FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments An Amendment of FASB Statements No. 133 and 140. This statement allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair-value basis. This statement is effective for instruments that are acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We believe that SFAS No. 155 will not have a material effect on our results of operations or consolidated financial position.

In March 2006, FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets An Amendment of FASB Statement No. 140. This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. We do not engage in these activities, and therefore we believe that this statement will not have a material effect on our results of operations or consolidated financial position.

Forward-Looking Statements

Certain statements made in this Form 10-Q/A that are not statements of historical or current facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results expressed or implied by such forward-looking statements.

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or that include terms such as believes, belief, expects, estimates, intends, anticipates or plans to be uncertain and forward-lookin Forward-looking statements may include comments as to our beliefs and expectations as to future events and trends affecting our business. Forward-looking statements are based upon management s current expectations concerning future events and trends and are necessarily subject to uncertainties, many of which are outside of our control. The factors stated under the heading Cautionary Statements and Risk Factors set forth below and those described in Item 1A of Part II of this Form 10-Q/A and our other SEC reports, including our Form 10-K for the year ended December 31, 2005, as well as other factors, could cause actual results to differ materially from those reflected or predicted in forward-looking statements.

Any forward-looking statements are based on management s beliefs and assumptions, using information currently available to us. We assume no obligation, and do not intend to update these forward-looking statements.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those reflected in or suggested by forward-looking statements. Any forward-looking statement you read in this Quarterly Report on Form 10-Q/A reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified or referred to in this Form 10-Q/A and our other SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2005, which would cause actual results to differ from those referred to in forward-looking statements.

Cautionary Statements and Risk Factors

We recognize that we are subject to a number of risks and uncertainties that may affect our future performance. The risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our Common Stock could decline, and you may lose all or part of your investment in our Common Stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

These risks include:

- our ability to identify and remedy all material errors in our financial statements for the first and second quarters of 2006, for the year ended December 31, 2005 and each of the quarters in that year

and for the year ended December 31, 2004, and the related costs associated with identifying and remedying such errors;

- economic, political, business and market conditions in the geographic areas in which we conduct business;
- factors affecting the customers, industries and markets that use our materials and services;
- competitive factors;
- production capacity;
- raw materials availability and pricing;
- our ability to successfully consolidate operations from several locations into our new worldwide headquarters in Rock Hill, South Carolina and to achieve the cost-savings expected from such relocation and consolidation;
- our ability to complete a successful transition of our remaining supply chain and equipment refurbishment activities to our third-party equipment assemblers and others, the ability of those third parties to perform their assembly, refurbishment and supply chain activities in a satisfactory manner, and the risks to us of disruption in our supply of systems to our customers if such third parties fail to perform in a satisfactory manner;
- successful transition of all of our inventory management and distribution functions to a new third-party service provider and the risk that this third-party provider may not perform in a satisfactory manner;
- our ability to successfully transition to, implement and operate our new corporate-wide ERP system;
- our ability to successfully centralize and transition to a new shared service center which will centralize most administrative functions for all of our European subsidiaries;
- our success with new distribution agreements with suppliers of materials and other products;
- changes in energy-related expenses;
- changes in the value of foreign currencies against the U.S. dollar;
- changes in interest rates, credit availability or credit stature;
- the effect on us of new pronouncements by accounting authorities;
- our ability to hire, develop and retain talented employees worldwide;
- our ability to develop and commercialize successful new products;
- our success in entering new market places and acquiring and integrating new businesses;
- our access to financing and other sources of capital and our ability to generate cash flow from operations;
- our debt level;
- our compliance with financial covenants in financing documents;

- the outcome of litigation or other proceedings to which we are a party;
- the volatility of our stock price;
- the magnitude and timing of our capital expenditures;

- our ability to forecast our sales of systems and to manage our inventory efficiently;
- changes in our relationships with customers and suppliers;
- acts and effects of war or terrorism; and
- changes in domestic or foreign laws, rules or regulations, or governmental or agency actions.

For a more detailed discussion of such risks and uncertainties, see Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005, and the risk factors noted in our other SEC filings and in Item 1A, Risk Factors in Part II of this Form 10-Q/A.

Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of market risks at December 31, 2005, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. During the second quarter of 2006, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2005, except as discussed in the following paragraph.

We and our subsidiaries conduct business in various countries using both our functional currencies and other currencies to effect cross border transactions. As a result, we and our subsidiaries are subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, we endeavor to match assets and liabilities in the same currency on its balance sheet and those of our subsidiaries in order to reduce these risks. We also, when we consider it to be appropriate, enter into foreign currency contracts to hedge exposures arising from those transactions. We have not adopted hedge accounting under SFAS No. 133, Accounting for Derivatives and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138, and all gains and losses (realized or unrealized) are recognized in cost of sales in the Condensed Consolidated Statements of Operations. At June 30, 2006, the notional amount of the forward currency contracts at their respective settlement dates amounted to approximately $11.5 million and related primarily to purchases of inventory from suppliers and amounts due under inter-company accounts receivable from subsidiaries. The notional amount of the contracts related to purchases aggregated approximately CHF 2.2 million (equivalent to approximately $1.7 million at settlement date). The respective notional amounts of the contracts related to inter-company accounts receivable at June 30, 2006 aggregated approximately euro 3.8 million (equivalent to approximately $4.8 million at settlement date), approximately pounds sterling 0.6 million (equivalent to approximately $1.0 million at settlement date) and approximately Japanese yen 460 million (equivalent to approximately $4.0 million at settlement date).

During 2005, we entered into a range-forward arrangement with a large, creditworthy financial institution to hedge certain other currency-rate exposures in Japanese yen. This arrangement established a collar around a range of exchange rates between 106.0 and 113.5 Japanese yen to the U.S. dollar to hedge 95 million Japanese yen (approximate equivalent range of $0.9 million to $0.8 million) of inter-company payments from our Japanese subsidiary. Both the put and call options entered into under the hedge arrangement were for the same monetary amount and maturity date. The range-forward arrangement expired on February 6, 2006 without any additional arrangement being in place for subsequent periods.

We are exposed to credit risk if the counterparties to such transactions are unable to perform their obligations. However, we seek to minimize such risk by entering into transactions with counterparties that we believe to be creditworthy financial institutions.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act.)) pursuant to Rules 13a-15 and 15d-15 under the Exchange Act.

As described in greater detail in Item 4 of Part I of our Quarterly Report on Form 10-Q/A for the period ended June 30, 2006 as originally filed (the Second Quarter 10-Q), we determined that material weaknesses (as defined below) existed at the end of the second quarter of 2006. Those material weaknesses related to:

(a) our procedures for reconciling and compiling our financial records for the second quarter of 2006; and

(b) processing and safeguarding of inventory for the period ended June 30, 2006.

As disclosed in the Second Quarter 10-Q:

1. With respect to our procedures for compiling and reconciling our financial records for the second quarter of 2006, we determined that that material weakness primarily arose as a result of the following contributing factors:

- inexperience and lack of training of personnel with respect to the closing procedures required under our new enterprise resource management (ERP) system;
- unfamiliarity with the reports generated by our new ERP system such that their utility in compiling and reconciling financial data was not fully recognized in connection with the quarter-end closing process;
- the combination of starting up our new ERP system, addressing problems with supply chain and order processing and fulfillment activities, and conflicting demands on our employees time;
- human errors in entering, completing and correcting product and vendor data in the ERP system; and
- difficulties in consolidating European financial information and in the U.S. consolidation process.

2. With respect to inventory accounting matters, we determined that the material weaknesses relating to that matter primarily resulted from three fundamental sources:

- insufficient planning and execution of the conversion from our legacy systems to our new ERP system;
- errors or corruption in the data migrated from our legacy accounting systems to our new ERP system; and
- data that was missing from, and errors in inputting data into, our new ERP system.

We also noted that such inventory accounting matters also arose out of the significant operational difficulties that we encountered in taking, processing and filling orders on our new ERP system during the second quarter both directly and through certain of our third-party suppliers to end users, including a logistics and warehousing firm that we employed beginning in the second quarter of 2006.

A material weakness, as used throughout this section, is defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a company s ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will not be prevented or detected.

As we prepared our financial statements for the period ended September 30, 2006, we discovered errors in our financial statements for the periods ended March 31, 2006 and June 30, 2006 that are discussed below and in other parts of this Form 10-Q/A and that led to the restatement of our financial statements set forth in this Form 10-Q/A. We identified these errors primarily as a result of our efforts to remediate the material weaknesses that we disclosed in the Second Quarter 10-Q and through our efforts to implement our new ERP system, to reconcile the records in our new ERP system with those in our legacy systems, and to test our internal controls in the context of our new ERP system environment.

In connection with the identification of these errors and the preparation of our third-quarter financial statements, we identified additional control deficiencies that, taken together with the material weaknesses that we previously disclosed in the Second Quarter 10-Q, constitute individually or in the aggregate additional material weaknesses with respect to those matters. These additional deficiencies relate to:

(a) a deficiency in the processing of and accounting for accounts receivable and the application of customer payments; and

(b) deficiencies in the timeliness and accuracy of our period-end financial statement closing process and the monitoring of our accounting function and oversight of financial controls.

As discussed below:

1. With respect to the deficiency in our procedures for the processing of and accounting for accounts receivable and the application of customer payments, we determined that this control deficiency resulted in the following errors in our financial statements:

- We experienced errors in the invoicing and recording of customer billings, in the application of customer payments and in the reconciliation of customer accounts. These matters required us to issue and record credit memoranda for the benefit of customers for product returns, pricing adjustments, changes to service contracts, freight-related matters and other similar matters that are discussed elsewhere in this Item 4 and in this Form 10-Q/A. We also identified cash that we had received but which had not been applied to customer accounts or the related accounts receivable.

- Some customer contracts had not been fully integrated and reflected in our new ERP system.

- Certain tax-exempt customers were charged sales tax in error and certain customers were inadvertently not billed for sales tax on their purchases.

2. With respect to the deficiency in the timeliness and accuracy of our period-end financial statement closing process and the monitoring of our accounting function and oversight of financial controls, we determined that this control deficiency primarily arose as a result of the following contributing factors:

- The combination of our relocation to Rock Hill, South Carolina, and the difficulties that we encountered in implementing our new ERP system;

- The loss of certain experienced accounting and other personnel who did not relocate to Rock Hill;
- Inexperience and lack of training of newly hired personnel, particularly in Rock Hill, with respect to our existing system of internal controls and the closing procedures required under our new ERP system;
- Unfamiliarity with the reports generated by our new ERP system such that their utility in compiling and reconciling financial data was not fully recognized in connection with the quarter-end closing process;
- The combination of starting up our new ERP system, addressing problems with supply chain and order processing and fulfillment activities, and conflicting demands on our employees time;
- Human errors in entering, completing and correcting product and vendor data in the ERP system; and
- Contrary to our existing policies and procedures, a lack of consistent and effective review and supervision of account reconciliations and data entries at various levels of our accounting organization to confirm, analyze and reconcile account balances that adversely affected our financial reporting and disclosure controls.

We also undertook a review of the potential effect of the financial statement errors that we discovered on prior periods. As discussed elsewhere in this Form 10-Q/A, on November 3, 2006, we announced that management and the Audit Committee of our Board of Directors had determined, based on information presented by our management in connection with the preparation of our financial statements for the third quarter of 2006, that our financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 as originally filed should be restated as a result of the errors in them that we had discovered, and on December 14, 2006, we announced that management and the Audit Committee had completed our assessment of our prior-period financial statements and that, based on information presented by our management, the financial statements included in our Annual Reports on Form 10-K for the 2004 and 2005 calendar years also contained errors and should be restated. As discussed elsewhere in this Form 10-Q/A, in evaluating the need to restate those periods, we also took into consideration audit adjustments that had been identified previously as not being material to those periods, and we have included those adjustments in the restated amounts for the applicable 2005 and 2004 periods.

Set forth below is a discussion of the reviews and procedures that we have conducted to identify the errors and control deficiencies that are discussed in this Item 4, the financial statement errors that we identified, the inventory accounting issues that we have identified, the factors contributing to the material weaknesses reported in this Form 10-Q/A, and corrective actions that we are taking to remedy the control deficiencies and material weaknesses reported in this Form 10-Q/A.

Reviews and Procedures Conducted

We identified most of the errors referred to above and the control deficiencies that contributed to them during the preparation of our financial statements for the three-month and nine-month periods ended September 30, 2006. Having identified these errors, we performed additional detailed transaction reviews and control activities in connection with reconciling and compiling our financial records. We undertook these procedures in order to confirm that our financial statements for the three months and nine months ended September 30, 2006 were prepared in accordance with generally accepted accounting principles, fairly presented and were free of material errors.

In order to determine that we had identified and corrected all material errors, we performed additional detailed account reconciliations of all material line-item accounts reflected on our Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Operations as of and for the period ended September 30, 2006 in order to confirm the accuracy of, and to correct any inaccuracies in, those accounts. The accounts that we reconciled during this comprehensive additional account reconciliation process included:

- Cash;
- Trade accounts receivable;
- Trade receivable deposits, unapplied cash and unapplied credits;
- Accounts receivables other;
- Fixed assets;
- Inventory;
- Prepaid expenses;
- Accounts payable;
- Deferred revenue;
- Accrued liability accounts;
- Taxes, including sales and use taxes; and
- Various accrued liability accounts.

As a result of this comprehensive effort, we identified several reconciliation issues and accounting shortcomings, including:

- Some accounts had not been adequately reconciled in accordance with our policies and procedures.
- Certain accounts contained unreconciled differences that had not been timely resolved in accordance with our policies and procedures, including credits for the benefit of customers and cash that had not been applied to customer accounts or the related accounts receivable.
- Some customer contracts had not been fully integrated and reflected in our new ERP system.
- Certain tax-exempt customers were charged sales tax in error and certain customers were inadvertently not billed for sales tax on their purchases.

We also identified variances in recorded versus actual inventory values that are discussed below.

Identification of Financial Statement Errors and Related Matters

We have identified and evaluated the errors noted in our prior-period financial statements and have corrected those errors through adjustments reflected in the restated historical consolidated financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 154 (SFAS No. 154), *Accounting Changes and Error Corrections.* We also assessed on a quarterly basis the materiality of prior-period misstatements that were previously identified but not corrected because they were originally considered to be immaterial. As a result of our analysis of adjustments identified during the third quarter of 2006 that were attributable to prior periods as well as previously unadjusted

amounts attributable to prior periods, we concluded the prior-period impact was material in the second and fourth quarters of 2005 as well as for the year ended December 31, 2004. Therefore, the restated financial information reflects adjustments to correct or record all such previously unadjusted amounts.

The restatement of the errors and previous unrecorded audit adjustments that we identified included the following:

- Errors in the recording of customer billings, in the application of customer payments and in the reconciliation of customer accounts that were corrected by the issuance and recording credit memoranda for the benefit of customers for product returns, pricing adjustments, changes to service contracts, freight-related matters and other similar matters.

- Errors related to the timing of recognition of royalty income and expense.

- Errors related to the timing of the recognition of warranty and training revenue.

- Errors related to securities issuance costs that arose as a result of expensing such costs rather than applying such costs against the net proceeds of sale of the related securities.

- Errors related to prepaid materials that arose from the reconciliation of such accounts between the sub-ledger and the general ledger for the affected periods.

- Errors related to the failure to record depreciation expense for assets that had been placed in service but which remained recorded in the Company s in construction-in-progress accounts.

- Errors related to the timing of expenses for certain unrelated third party professional services.

- Errors related to the reconciliation of accounts payable that arose from the reconciliation of such accounts between the sub-ledger and the general ledger for each applicable period.

- Errors related to inventory shrinkage that arose from variances identified between actual and recorded inventory values following the Company s conducting physical inventory counts to test the accuracy of the recorded inventory data.

- Errors related to hedging activities on foreign currency transactions that arose from mechanical errors in accumulating spreadsheet data as well as the recording of unrealized gains and losses on foreign exchange hedges that had previously been excluded from the statement of operations.

- Prior-period adjustments related to inventory reserves that had previously been identified but which were not deemed material to that period.

- Errors related to foreign income tax expense that relate to a previously identified adjustment that related to periods prior to 2004 but that was not deemed material to those periods.

For a further discussion of these errors, see Note 2 to the Condensed Consolidated Financial Statements.

Inventory Reconciliation Issues

As part of our comprehensive account reconciliation initiative, and in light of the previously disclosed variances noted at the end of the second quarter of 2006 between the United States inventory accounts on our books compared to the physical inventories conducted at the end of that quarter, we conducted additional physical inventories during and after the third quarter of 2006 to test the accuracy of our recorded inventory data. As a result, we identified variances between the inventory data in our books compared to the inventory values determined through the physical counts as of the end of the third quarter. We conducted extensive data integrity checks as part of this process, and recorded the $1.4 million difference in inventory values that we were unable to reconcile in our cost of sales for the third quarter. See Management s Discussion and Analysis of Financial Condition and Results of Operations above.

We have determined that the discrepancy in recorded versus actual third quarter of 2006 inventory values resulted from the same problems previously noted in the Second Quarter 10-Q, namely:

- Errors or corruption in the data migrated from our legacy accounting systems to our new ERP system we implemented in the second quarter of 2006;

- Errors in processing, shipping and properly recording orders by our third-party logistic and warehousing provider; and

- Failure to properly record certain orders that were shipped directly from our third-party suppliers to the end users.

Factors Contributing to Ineffectiveness/Material Weaknesses

We have determined that the ineffectiveness of our disclosure controls and procedures at June 30, 2006 is primarily attributable to material weaknesses in our internal control over financial reporting as described in the factors disclosed in Item 4 of Part I of the Second Quarter 10-Q, as well as the control deficiencies discussed above. Other factors that contributed to the control deficiencies discussed above include:

- Human error;

- Lack of training and experience of new personnel in our system of internal controls and the application of our policies and procedures; and

- Contrary to our policies and procedures, a lack of consistent and effective review and supervision of account reconciliations and data entries at various levels of our accounting organization to confirm, analyze and reconcile account balances that adversely affected our financial reporting and disclosure controls.

We believe we have addressed the errors, discrepancies and many of the control deficiencies that caused the previously reported delays in compiling and reconciling our financial records for the second and third quarters of 2006, through additional transaction reviews and other corrective actions. The additional measures we have implemented or are currently implementing are discussed in greater detail below.

Effectiveness of Disclosure Controls and Procedures

Based on the evaluation of our disclosure controls and procedures described above, and in light of the inventory variances and other issues identified with respect to the third quarter of 2006, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective, based on the control deficiencies and material weakness as described above.

Remediation Efforts

We are continuing to work diligently to identify and remedy all sources of the problems with our inventory accounting procedures, our procedures for reconciling and compiling our financial records and the related matters described above, and we believe that we have identified the primary causes of and appropriate remedial actions for these problems. These are discussed above. While we continue to diligently implement appropriate corrective measures, we ultimately may be unable to achieve that goal despite our efforts, and the corrective actions that we implement may not fully remedy the material weaknesses that we have identified to date or prevent similar or other control deficiencies from having an adverse impact on our business and results of operations or our ability to timely make required SEC filings in the future.

At this time, we anticipate that certain of these control deficiencies may impact the third and fourth quarters and full year of 2006, despite our substantial remediation efforts, and may require us to undertake extraordinary measures to confirm the accuracy and reliability of our financial statements such as those we undertook in the second and third quarters of 2006.

Corrective Actions

In order to remedy the control deficiencies noted above, we have undertaken the corrective actions described immediately below, in addition to those actions previously described in Item 4 of Part I of the Second Quarter 10-Q:

- Completing the implementation of our new ERP system to eliminate the transaction processing issues that have contributed to our delays in compiling and reconciling financial statements;
- Reaffirmed and clarified our account reconciliation policies through additional procedural details and guidelines for completion, which now expressly require (a) reconciliations of all material accounts no less frequently than monthly, (b) that any discrepancies noted be resolved in a timely fashion, and (c) that all proposed reconciliations be reviewed in detail and on a timely basis by appropriate personnel to determine the accuracy and appropriateness of the proposed reconciliation;
- Continuing our efforts to hire additional qualified personnel to implement our reconciliation and review procedures;
- Engaged outside consultants to assist us in reviewing and strengthening our business processes; and
- Considering whether certain of the activities that require substantial expertise should be handled internally or outsourced.

In addition, of those corrective actions previously described in Item 4 of Part I of the Second Quarter 10-Q, we believe we have substantially completed the following corrective actions:

Credit Memoranda Remediation:

- Implemented invoice processing changes and management review prior to submission to customer;
- Increased credit and collection efforts to include more timely contact with customers; and
- Implemented significant review of sales order entries to ensure correctness of items being sold, appropriate discounts, applicability of sales tax exemptions and payment terms.

Account Reconciliations:

- Completed detailed comprehensive account reconciliations with respect to all material accounts on our balance sheet and income statement, as described above;
- Developed additional management review procedures that include timely review and subsequent resolution of reconciling issues;
- Implemented an action plan to require all account information to reside on our new ERP system;
- Implemented a cross-functional task force to streamline and validate information being processed through the ERP system, including data verification and management review; and

- Developed and reviewed a management report to determine that all sales orders that have attained order status have been processed and are controlled through our new ERP system.

Inventory-Related Remediation:

- Reviewed parts returned for repair or refurbishment to confirm that all such parts have been identified and properly classified as such, including physical review of more significant parts by field engineers to confirm the actual status of the parts in question;

- Revised the internal accounting procedures for returned equipment and the overall process for monitoring and recording fixed asset additions and retirements;

- Implemented a comprehensive review of daily processing by the outside warehousing function;

- Provided training and oversight controls to our third-party logistics management provider, including installing fail audits for shipping, receiving and return processes; and

- Implemented faster network communications connection speeds with our logistics management provider to promote faster response and processing times.

ERP Implementation Remediation:

- Corrected data entry errors and corrected or updated pricing and unit data in our new ERP system files;

- Expanded the number of super users and provided additional training for employees who operate and interface with the ERP system, including training in placing and processing orders, inventory accounting practices and the functions and features of our new ERP system;

- Created specific reports in the ERP system tailored to our business and the controls necessary to promote accurate data entry and processing and timely compilation and reporting of our financial records;

- Troubleshot the ERP system to identify any missing, incomplete, corrupt or otherwise insufficient data necessary to properly record, process and fill orders; and

- Retained a third-party consulting firm to review and assess the conversion of those European operations that have transitioned to our new ERP system to determine the success of that conversion and the adequacy of the controls in place at such operations.

Other than actions we have taken to remedy the material weaknesses identified above and the other control deficiencies described above, there were no material changes in our internal control over financial reporting during the period covered by this Form 10-Q/A that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

On May 6, 2003, we received a subpoena from the U.S. Department of Justice to provide certain documents to a grand jury investigating antitrust and related issues within our industry. We understand that the issues being investigated include issues involving the consent decree that we entered into and that was filed on August 16, 2001 with respect to our acquisition of DTM Corporation and the requirement of that consent decree that we issue a broad intellectual property license with respect to certain patents and copyrights to another entity already manufacturing rapid prototyping industrial equipment. We 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 our current and former employees and executives. We were advised that we are not a target of the grand jury investigation, and we have not been informed that this status has changed. We have furnished documents required by the subpoena and are otherwise complying with the subpoena.

We are also involved in various other legal matters incidental to our business. Our management believes, after consulting with counsel, that the disposition of these other legal matters will not have a material effect on our consolidated results of operations or consolidated financial position.

Item 1A. Risk Factors

In addition to the risk factors set forth in the section entitled Cautionary Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005, we have identified certain additional risk factors that are set forth in the section entitled Cautionary Statements and Risk Factors appearing above in this Quarterly Report on Form 10-Q/A, as follows:

We face continuing risks in connection with the restatement that we have carried out to our financial statements for the first and second quarters of 2006, for the year ended December 31, 2005 and each of the quarters in that year and for the year ended December 31, 2004.

These risks include:

- The risk that, notwithstanding our efforts to identify and remedy all material errors in those financial statements, we may discover other errors in those financial statements in the future.

- The risk that the cost of identifying and remedying those errors may be excessive.

We face continuing risks in connection with our current project to implement a new enterprise resource system for our business.

These risks include:

- The risk that we may face further delays in the design and implementation of that system in all of our global operations.

- The risk that the cost of that system may exceed our current plans and expectations.

- The risk that such system may continue to impact our ability to process transactions and to fulfill and invoice orders and that such impact will adversely affect our revenue, operating results, cash flow and working capital management.

We face risks from transitioning our inventory management and distribution to a new third-party service provider.

During the second quarter of 2006, we outsourced the logistics and warehousing of our spare parts inventory and certain of our finished goods supply activities to a third-party service provider. In transitioning these responsibilities to the third-party provider, we face a number of risks, including:

- The risk that the third-party service provider may not perform its logistics and warehousing tasks in a satisfactory manner;

- The risk of disruption in the supply of spare parts or other items to our customers if the third-party does not perform the logistics and warehousing services and as a result we are unable to maintain sufficient inventory or timely distribute spare parts or other items to meet our customers demands;

- The risk that we will not realize the anticipated financial and operational benefits we expect to receive from transitioning these services to a third party; and

- The risk that deficiencies in the internal controls of the third-party service provider could compromise the data we receive from them and negatively impact our disclosure controls and procedures and internal control over financial reporting.

We face risks relating to ineffective internal control over financial reporting for purposes of Section 404 of the Sarbanes-Oxley Act

Section 404 of the Sarbanes-Oxley Act requires our management to document and test our internal control over financial reporting and assert in our Annual Reports on Form 10-K whether our internal control over financial reporting is effective. In addition, our independent registered public accounting firm must attest to and report on our assessment of our internal control over financial reporting. Any material weaknesses then existing, including those described in Item 4 Controls and Procedures of this Form 10-Q/A, will require us to conclude that our internal control over financial reporting is not effective. If our internal control over financial reporting is ineffective, it could have a material adverse effect on investor and analyst confidence in us, which could materially affect the trading price of our stock and our ability to access the capital markets, could require us to incur additional costs to improve our internal control systems and procedures, and could cause us to be untimely in filing our periodic reports under the Exchange Act.

We face risks in connection with our ability to successfully centralize the administrative functions for all of our European subsidiaries at a new shared service center.

During the latter part of the second quarter of 2006, we transitioned most of the administrative functions for our European subsidiaries to a centralized shared service center location. We face certain risks in connection with this undertaking, including:

- The risk that we may face unforeseen delays in centralizing the administrative functions of our European subsidiaries;

- The risk that the costs and disruptions associated with centralizing our European administrative functions may exceed the benefits and savings we expect to receive from creating the shared service center; and

- The risk that we may lose employees who are important to our business as a result of relocating and centralizing these administrative functions.

We face risks in connection with changes in energy-related expenses.

We and our suppliers depend on various energy products in manufacturing processes used to produce our products. Generally, we acquire energy products at market prices and do not use financial instruments to hedge prices. As a result, we are exposed to market risks related to changes in energy prices. In addition, many of the customers and industries to whom we market our systems and materials are directly or indirectly dependent upon the cost and availability of energy resources. Our business and profitability may be materially and adversely affected to the extent that our or our customers energy-related expenses increase, both as a result of higher costs of producing, and potentially lower profit margins in selling, our products and materials and because increased energy costs may cause our customers to delay or reduce purchases of our systems and materials.

We face risks in connection with the effect of new pronouncements by accounting authorities.

From time to time, accounting authorities issue new rules and pronouncements that may have adverse effects on our reported results of operations or financial condition, may influence customers ability and willingness to make capital expenditures such as purchases of our systems, or may otherwise have material adverse effects on our business and profitability.

We face risks in connection with our success in acquiring and integrating new businesses.

In the past, we have acquired other businesses and technologies as part of our growth and strategic plans. Although we do not currently plan to acquire new businesses, we may in the future make such acquisitions, and those acquisitions will be subject to certain risks, including risks that the costs of such acquisitions may be greater than anticipated and that the anticipated benefits of such acquisitions may be materially delayed or not realized.

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

On May 16, 2006, we held our annual meeting of stockholders. At the annual meeting, our stockholders:

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

(ii) ratified the selection of BDO Seidman, LLP as our independent registered public accounting firm for the year ending December 31, 2006.

A total of 14,403,546 shares of Common Stock and 2,300,199 shares of Series B Convertible Preferred Stock were present in person or by proxy at the annual meeting, representing 16,703,745 votes, or approximately 92.5% of the voting power of the Company entitled to vote at the annual meeting. Each share of Common Stock and Series B Convertible Preferred Stock was entitled to one vote on each matter brought before the meeting.

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

	Number of Votes In Favor	Withheld
Nominees for Election to Board of Directors:		
Charles W. Hull	16,694,484	9,261
Miriam V. Gold	16,694,484	9,261
Jim D. Kever	16,692,643	11,102
G. Walter Loewenbaum, II	16,691,184	12,561
Kevin S. Moore	16,639,801	63,944
Abraham N. Reichental	16,694,567	9,178
Richard C. Spalding	16,693,526	10,219
Daniel S. Van Riper	16,693,326	10,419

	For	Against	Abstentions	Broker Non-Votes
Ratification of BDO Seidman, LLP as Independent Registered Public Accounting Firm	16,646,317	55,754	1,674	0

Item 6. Exhibits

The following exhibits are included as part of this filing and incorporated herein by this reference:

3.1 Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 3.1 to Form 8-B filed on August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.)

3.2 Amendment to Certificate of Incorporation filed on May 23, 1995. (Incorporated by reference to Exhibit 3.2 to Registrant s Registration Statement on Form S-2/A, filed on May 25, 1995.)

3.3 Certificate of Designation of Rights, Preferences and Privileges of Preferred Stock. (Incorporated by reference to Exhibit 2 to Registrant s Registration Statement on Form 8-A filed on January 8, 1996.)

3.4 Certificate of Designation of the Series B Convertible Preferred Stock, filed with the Secretary of State of Delaware on May 2, 2003. (Incorporated by reference to Exhibit 3.1 to Registrant s Current Report on Form 8-K, filed on May 7, 2003.)

3.5 Certificate of Elimination of Series A Preferred Stock filed with the Secretary of State of Delaware on March 4, 2004. (Incorporated reference to Exhibit 3.6 of Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.)

3.6 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 19, 2004. (Incorporated by reference to Exhibit 3.1 of the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, filed on August 5, 2004.)

3.7 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 17, 2005. (Incorporated by reference to Exhibit 3.1 of the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005, filed on August 1, 2005.)

3.8 Certificate of Elimination of Series B Preferred Stock filed with the Secretary of State of Delaware on June 9, 2006. (Incorporated reference to Exhibit 3.1 of Registrant s Current Report on Form 8-K, filed on June 9, 2006.)

3.9	Amended and Restated By-Laws. (Incorporated by reference to Exhibit 3.5 of Registrant s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.)
31.1	Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated February 8, 2007.
31.2	Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated February 8 2007.
32.1	Certification of Principal Executive Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated February 8, 2007.
32.2	Certification of Principal Financial Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated February 8, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

3D SYSTEMS CORPORATION

By:	/s/ FRED R. JONES Fred R. Jones *Vice President and Chief Financial Officer* *(Principal Financial Officer)* *(Duly Authorized Officer)*
By:	/s/ WILLIAM J. TENNISON William J. Tennison *Vice President and Corporate Controller* *(Principal Accounting Officer)* *(Duly Authorized Officer)*

Date: February 8, 2007