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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

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

Commission file number 0-22250

3D SYSTEMS CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware 95-4431352
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

26081 Avenue Hall
Valencia, California 91355
(Address of principal executive offices and zip code)

(661) 295-5600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.001 per share

Preferred Stock Purchase Rights

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [_] No [X]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [_]

At June 28, 2002, there were outstanding 12,863,396 shares of the Common Stock of Registrant, and the aggregate market value of the shares held on that date by non-affiliates of Registrant, based on the closing price (\$12.20 per share) of the Registrant's Common Stock on the NASDAQ National Market on that date, was \$107,335,893. For purposes of this computation, it has been assumed that the shares beneficially held by directors and officers of Registrant were "held by affiliates"; this assumption is not to be deemed an admission by these persons that they are affiliates of Registrant.

At June 13, 2003, there were outstanding 12,734,301 shares of the Common Stock of Registrant.

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PART I

Forward-Looking Statements

This filing, including "Cautionary Statements and Risk Factors" set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results and the results of our consolidated subsidiaries to differ materially from those expressed or implied by these forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statement concerning proposed new products, services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the difficulty of keeping expense growth at modest levels while increasing revenues and other risks that are described from time to time in our Securities and Exchange Commission reports, including but not limited to the items discussed in "Cautionary Statements and Risk Factors" set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 in this report. We assume no obligation and do not intend to update these forward-looking statements.

Item 1. Business

Our consolidated financial statements for the year ended December 31, 2001 and 2000, as filed with the Commission on March 27, 2002, have been restated. Accordingly, all financial data in this Report reflects the effects of the restatements. See Note 24 to our Consolidated Financial Statements for a description of the restatement.

General

We design, develop, manufacture, market and support, on an international basis, solid imaging systems and related materials. Solid imaging systems are designed to rapidly produce 3-dimensional physical objects from digital data using computer aided design and manufacturing, or CAD/CAM, software utilities and related computer applications.

Used worldwide to generate product concept models, functional prototypes, master patterns for tooling and end-use production parts for direct and indirect manufacturing, our solid imaging technologies change the way people design, develop and manufacture products. The systems utilize patented stereolithography, selective laser sintering, direct composite manufacturing and 3-D printing processes to fabricate physical objects using input from CAD/CAM software, or 3-D scanning and sculpting devices.

Our customers use our solid imaging systems and solutions to:

- . Streamline part making, prototyping and manufacturing processes
- . Verify product designs
- . Create functional parts
- . Generate production-quality samples or final parts
- . Direct manufacture end-use parts
- . Create tooling used to manufacture end-use parts.

We expect our Advanced Digital Manufacturing (ADM(SM)) solutions to become a key enabling technology for the customization of design and manufacturing using additive fabrication techniques, also called mass customization or rapid manufacturing. ADM will allow designers to reduce part count in the design process and to add custom features and complexity to designs not currently feasible with today's manufacturing techniques thus reducing part costs and assembly time. By using multiple technologies offered by us, existing designs can be manufactured without the costs and lead-time associated with hard tooling, and more complex designs will become easier to manufacture.

An integrated package combining hardware, software, materials and process gives us one of the widest ranges of solid imaging solutions in the world. Our comprehensive range of products includes; the MJM (multi-jet modeling) product line, the SLA(R) (stereolithography apparatus) product line, the SLS(R) (selective laser sintering) product line, the DCM (direct composite manufacturing) product line, and the Accura(R) material line, which provides a broad range of prototype and manufacturing materials utilized by our MJM, SLA and SLS systems.

We produce, market and distribute consumable materials used in all solid imaging systems we offer. Our growing installed base of systems requires an ongoing supply of materials as well as service support and provides us with an ongoing revenue stream. In April 2002, we introduced our Accura family of materials for use in our solid imaging systems. Since the introduction of our Accura materials, we have introduced and continue to engage in research regarding materials for our SLA and SLS systems.

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Our MJM systems use proprietary materials developed, manufactured and sold exclusively by us. Of our MJM systems we currently offer the ThermoJet(R) solid object printer. ThermoJet printers are about the size of office copiers and employ hot-melt ink jet technology to build three-dimensional models in successive layers using our proprietary thermoplastic materials. Designers, engineers and other users of CAD/CAM utilities can incorporate our printers into office networks as a shared resource, to rapidly produce models of products under development for design concept communication and validation. In addition, objects produced by our ThermoJet printers can be used as patterns and molds and, when combined with other secondary processes, such as investment casting, can produce parts with representative end-use properties.

SLA systems use our proprietary stereolithography, ("SL technology"), a solid imaging process that uses a laser beam to expose and solidify successive layers of a photosensitive liquid until the desired object is formed to precise specifications in epoxy or acrylic resin. SL-produced parts can be used for concept models, engineering prototypes, patterns and masters for molds, consumable tooling or short-run manufacturing of final products, among other applications. SL technology provides users with significant product development time-savings, cost reductions and improved quality, compared to traditional modeling, tooling and pattern-making techniques. In addition, with appropriate material functionality, SL technology can produce durable parts that can be used for ADM solutions.

SLS systems are based on our proprietary selective laser sintering, or SLS(TM), process initially developed and patented by The University of Texas. The SLS(TM) process was further refined and patented by DTM Corporation. We acquired DTM on August 24, 2001 and now own these DTM patents. We also have an exclusive worldwide license from The University of Texas to practice SLS process under selected laser sintering patents owned by The University of Texas. This technology uses laser energy to melt and fuse, or sinter, powdered material to create a solid object. SLS systems are used to produce functional models for use in product development and design, and are increasingly used for the direct manufacture of small lot quantities of plastic or metal parts for use as final products by end-users in both the consumer and industrial markets. Use of our SLS systems can significantly reduce the time required for production from what otherwise could be months or weeks, to days or, in some cases, hours.

We provide, either directly or through our network of authorized distributors, a variety of processing materials and on-site maintenance services for all of our solid imaging products. Our customers include major corporations throughout the world in a broad range of industries including manufacturers of automotive,

aerospace, computer, electronic, consumer, telecommunication, appliance, footwear, toy, power tool, medical and dental products. We also sell to independent service bureaus that, for a fee, provide solid imaging services to their customers, and to government agencies and universities.

As of December 31, 2002, we held 359 patents related to solid imaging: 152 in the United States, 146 in Europe, 17 in Japan, and 44 in other foreign countries. We continue to develop new products and processes to expand the applications of solid imaging, and to develop improvements to our existing product lines.

Corporate Structure

Unless otherwise indicated, all references in this document to "the Company," "we," or "us" include 3D Systems Corporation, and its direct and indirect wholly owned subsidiaries.

We were incorporated in Delaware in 1993, and are the sole shareholder of 3D Canada Company, a Nova Scotia unlimited liability company, which we refer to as 3D Canada, and RPC, Ltd., a Swiss corporation. We jointly own 3D Holdings, LLC with 3D Canada. 3D Holdings, LLC is the sole shareholder of 3D Systems, Inc., a California corporation, which we refer to as 3D, Inc. 3D, Inc. directly, and through its direct and indirect subsidiaries, conducts substantially all of our business. 3D, Inc.'s direct subsidiaries include 3D Systems Europe Ltd., a United Kingdom company that we refer to as 3D Europe, which serves as the headquarters for the Company's European operations.

Products and Services

The following is a description of our products and their current uses. Each product can be used as a stand-alone resource and, as we work to improve process, material functionality, build-to-build and machine-to-machine uniformity, we anticipate increasing sales of multiple types of solid imaging equipment into single location for ADM applications.

Solid Imaging Systems

. MJM Systems. The ThermoJet solid object printer is the second generation of multi-jet modeling systems to be offered by us. The ThermoJet printer is a network-ready system, about the size of an office copier, that uses a hot-melt ink jet technology to print models by accumulating material in successive layers using proprietary thermoplastic solid imaging materials, or SIM, and a print head with hundreds of jets oriented in a linear array. The print head scans back and forth, similar to desktop ink jet printers,

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depositing layer upon layer of material to form the physical model. The printers offer a part-building capacity of 10 inches x 7.8 inches x 8 inches (250 mm x 195 mm x 200 mm).

The ThermoJet printer creates concept models used for design reviews, form and fit checking, styling, ergonomics evaluation and CAD-model verification. Both technical and non-technical people more easily understand these communication tools than complex two-dimensional presentation drawings. Because SIM is substantially similar to investment casting waxes, ThermoJet printer models can be readily used in the foundry environment for the production of investment casting patterns.

We introduced our third generation of multi-jet modeling solutions, the InVision(TM) 3-D printer, in July 2002 at the international trade show SIGGRAPH. The InVision 3-D printer is a network-ready system, about the size of an office copier that combines proprietary photocurable hot melt materials with the ease of ink-jet printing. The InVision 3-D printer has not been released commercially into the market. Throughout 2002, we continued to research and develop the InVision 3-D printer. We have begun, and expect to complete, design validation testing, beta testing and market research, with respect to the InVision 3-D printer, in 2003.

. SLA(R) Systems and Related Equipment. As of December 31, 2002, our SLA product line includes three models: the Viper si2(TM) SLA system, the SLA 5000 system and the SLA 7000 system. These models vary in their capabilities including:

- . the resolution and accuracy of part building,
- . the maximum size of objects that can be produced,
- . object building speed, and
- . system price

SLA systems produce highly detailed 3-dimensional parts with fine

surface quality. The parts are created through the use of an ultraviolet laser to convert liquid photosensitive polymers into solid cross-sections, layer by layer, until the desired objects are complete. SLA systems are capable of making multiple objects at the same time; however, each SLA system is limited in the size of the objects that it can make during a single build session. Therefore, an SLA system can make scale models of very large objects or, alternatively, full-scale portions of large objects, which are then joined together. The Viper SLA system, for example, can create a model, section of a model or other object with maximum size of 10 inches x 10 inches x 10 inches (250 mm x 250 mm x 250 mm). On the other hand, the maximum size model, section or other object that can be created using the SLA 7000 system is 20 inches x 20 inches x 24 inches (500 mm x 500 mm x 600 mm).

SLA systems are installed in many of the largest manufacturing organizations in the world and are used in a wide variety of applications, varying from short production runs of end-use products, to producing automobile prototype parts, to creating new designs for testing in consumer focus groups. SLA systems are generally designed to build communication models to enable users to share ideas and evaluate concepts; perform form, fit and function testing on working models; build master patterns for investment casting; or quickly produce parts for direct use in working models. In addition, our products have been customized to produce thousands of tools and end-use parts in ADM applications, including certain dental, hearing aid, jewelry and motorsport applications.

We also market PCA(TM) equipment, ultraviolet-curing devices used in conjunction with SLA systems, which provide uniform long wave ultraviolet illumination. Upon completion of a typical object by an SLA system, a small amount of the resin remains uncured. Full curing, or hardening, requires an additional one to two hours of exposure to ultraviolet illumination, which can be accomplished most effectively through the use of our PCA devices. Approximately two-thirds of all SLA systems sold have been purchased with a PCA device. Purchasers of multiple SLA systems may use the same PCA device for each system.

. SLS(R) Systems and Related Equipment. SLS systems are primarily used to produce functional parts for use in product development and design. Objects produced by SLS systems are more durable and flexible, in the case of plastic parts, than those produced by SLA systems, but lack the fine detail and surface finish of an SL part. Functional models and prototypes are produced directly from powdered sintering materials, generally, either plastic, nylon or metal. SLS systems are also used to produce metal inserts for tooling and limited quantities of direct metal parts for custom applications, as well as to produce models and prototypes for testing actual product fit, form, ergonomic design and functionality. SLS systems are capable of making multiple objects at the same time; however, each is limited in the size of the objects that it can make during a single build session maximum size of 14.5 inches x 12.5 inches x 17.5 inches (370 mm x 320 mm x 445 mm).

SLS systems are increasingly used for the direct digital manufacture of small lot quantities of plastic, nylon or metal parts for use as final products by end-users in both the consumer and industrial markets. Metal part production requires processing with an additional furnace step. SLS systems also are used to create tools, molds or patterns that are an intermediate step in most manufacturing processes employed to manufacture low-volume/high-value end-use parts. The systems' pattern production capability offer foundries the ability to automate the pattern-making step of traditional investment casting processes to manufacture metal parts. Parts cast from patterns produced with an SLS system are used in final product assemblies. Foundries also use our SLS systems to automate and accelerate the manufacture of sand molds and cores, which are used for sand casting of metal parts, primarily for use in automotive and heavy equipment applications.

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We market the SLS system to customers and prospects requiring direct digital manufacturing solutions. Currently the SLS system is being utilized in advanced digital manufacturing companies in the hearing aid industry and the aerospace industry to produce mass production, customized end-use parts, such as in-the-ear hearing aids and air ducts for non-commercial planes.

. DCM System. Our Direct Composite Manufacturing line consists of the OptoForm(TM) system. The OptoForm system is an advanced digital manufacturing system, which combines the precision of stereolithography with dense materials comprising both a photosensitive epoxy polymer and a range of reinforcing fillers including thermoplastics, metals, and ceramics, or a combination of these paste materials. Similar to the techniques of the SLA and SLS systems the OptoForm system spreads a layer of paste material across the platform. Parts are created through the use of an ultraviolet laser to convert the paste into solid cross-sections, layer by layer, until the desired objects are complete. The OptoForm system offers a part-building capacity of 20 inches x 12.5 inches x 20

inches (500mm x 330mm x 500mm) which is limited by the weight of the material.

In December of 2001, we formed OptoForm LLC (a Delaware limited liability company) a joint-venture with DSM Somos, one of our resin suppliers, to focus on the development and commercialization of equipment and materials for the OptoForm system. As of March 28, 2003, we have placed five OptoForm engineering evaluation machines at customer locations to facilitate continued technical development of materials, hardware and software.

Materials

. Accura(R) Materials. We develop, manufacture, sell and distribute proprietary materials used by the ThermoJet printer, InVision 3-D printer, SLA and SLS systems. Under our distribution contract with Vantico, Inc., which expired on April 22, 2002, we were the exclusive worldwide distributor of Vantico photosensitive liquid resins for stereolithography. In September 2001 we acquired RPC Ltd., a Swiss developer and manufacturer of stereolithography materials. Upon termination of the Vantico distribution contract, we began to sell our SL materials, under our Accura brand, to our worldwide (except Japan) SLA system customer base. Throughout the term of the Vantico distribution contract, the majority of our customers purchased materials from us upon the initial purchase of equipment. We also sold materials necessary for ongoing operation of the machines. We continue to provide initial vat fills and refills of our new Accura SL materials to our customers, and service what we believe is approximately one third of the SLA system customer base.

Our range of LS powdered materials used in our SLS systems, many of which can be used in multiple applications, addresses a growing list of customer needs. We believe our SLS process, in combination with the DuraForm(TM) material system is currently the world's leading solid imaging technology used for functional plastic and nylon prototype applications. LaserForm(TM) ST-200 material, the fourth-generation metal powder developed for the SLS system is used for creation of prototype tooling and to make metal functional parts.

Software

. General. We develop part preparation software for personal computers and engineering workstations designed to enhance the interface between digital data and our solid imaging systems. Digital data, such as solid CAD/CAM, is converted within the software utility; then, depending on the specific software package, the object can be viewed, rotated, scaled, and model structures added. The software then generates the information to be used by the SLS system, SLA system, OptoForm or MJM system to create the solid images. In addition, we work with outside companies, where appropriate, to develop software for our systems.

. QuickCast(TM) Technology. Our QuickCast build style consists of a special process for making precision investment casting patterns using SL technology. The QuickCast process uses our SLA systems to produce foundry-useable mold patterns suitable for limited-run investment casting. While not cost-competitive for high-capacity manufacturing, the ability to rapidly produce prototypes and short-run production quantities of fully functional complex metal parts, in a wide variety of metals, is a major technological advantage of SL. All of the SLA systems we sell include the software capability for the QuickCast process.

Services

. Maintenance. All of the SLS and SLA systems are bundled with on-site hardware and software maintenance service, during a warranty period (typically one year). All ThermoJet printers are bundled with at least a 90-day warranty period. After the warranty period, we offer customers optional maintenance contracts, available on a monthly and annual basis. Approximately three-quarters of the services we provide are for post-warranty maintenance contracts. Although purchasers are not required to enter into post warranty maintenance contracts, the majority of our United States, Asia Pacific and European SLA and SLS system customers are parties to these contracts, and other customers obtain our maintenance services on a time and materials basis. Our overseas distributors also offer maintenance contracts to customers acquiring systems from them. As of December 31, 2002, we had a staff of 127 full-time employees providing on-site remedial and preventive maintenance services necessary to maintain our customers' equipment in good operating condition.

. Technology Centers. We provide services from our Technology Centers at our Valencia, California headquarters, at our European headquarters near London, England, at our offices in Japan and at our office located near Frankfurt, Germany. The Technology Centers produce models, prototypes, mold patterns and other parts for customers at prices that vary based on the nature of the services requested. The Technology Centers also focus their efforts on the

development of new applications and techniques and customer benchmarking, and also enable us to keep abreast of developments and serve as a means to introduce prospective buyers to our technology.

Recent Product Introductions. In order to improve and expand the capabilities of our systems and related software and materials, as well as to enhance our portfolio of proprietary intellectual properties, we have historically devoted a significant portion of our resources to research and development activities. Recent product introductions include:

- [X] Accura(R) SL materials: accuGen(TM). accuGen 100 material combines accuracy, and green strength to maximize part building productivity. accuGen 100 material is ideal for prototype parts, master patterns, RTV (Room Temperature Vulcanization) mold inserts and flow testing.
- [X] Accura(R) SL material: accuDur(TM). accuDur 100 material combines industry-standard durability with flexibility, high accuracy and improved build speeds. accuDur 100 material is a robust, flexible and durable material, ideal for building parts for snap-fit testing, or any other application where durability is required.
- [X] Accura(R) SI 10 material. Accura SI 10 material is a superior general purpose material offering an exceptional combination of long vat life and accuracy in part building resulting from its high green strength, humidity resistance and the advances we have made in the material process, which provides speed without compromising part quality. The SI 10 material creates parts with a glossy top finish, excellent for thin wall parts and ideal for master patterns.
- [X] Accura(R) SI 20 material. Accura SI 20 material is a durable white material offering high green strength and good throughput. This material is ideal for snap-fit testing and RTV applications.
- [X] Accura(R) SI 30 material. Accura SI 30 material is a fast/durable material ideal for customers needing a high-photo speed, low-viscosity material for functional prototypes.
- [X] Accura(R) SI 40 material. Accura SI 40 material is the first material on the market that combines high temperature resistance with strength. With properties that mimic Nylon 66 this material is ideal for automotive applications including under-the-hood applications, wind tunnel testing and flow analysis. The Accura SI 40 material produces parts with optical clarity, high flexural modulus and moderate elongation to break, with a high heat deflection temperature allowing it to be drilled, self-tapped and bolted on for true functional testing.
- [X] Accura(R) LS material: LaserForm(TM) ST-200 material is the second-generation stainless steel material to be offered for our SLS systems. LaserForm ST-200 material is a specialty stainless steel composite developed for our SLS systems to produce durable, fully dense metal parts and tooling inserts for injection molding and die casting applications.
- [X] Software. Lightyear(TM) 1.3 and Buildstation(TM) 5.3 incorporates new Accura SL material styles simplifying the users' ability to manually select style files.
- [X] Software: Buildstation 4.0.0 for the SLA 250 system incorporates new Accura SL material styles and enhancements to Buildstation 3.8.6 software.
- [X] Software. Software version 3.1 for all SLS systems is the first version released under 3D Systems' label since the purchase of DTM Corp. Version 3.1 provides SLS system customers enhanced features including tagging, the ability to enter text for a small label that will be built attached to the part; slicing improvements; new Build Packet Browser and Smart Feed enhancements specifically for our SLS 2500/plus/ customers.

Our ability to compete successfully depends, among other things, on our ability to design and develop new machines, materials and applications, and to refine existing products. We believe that our future growth will depend on new materials, as well as improved part accuracy and processing speed. Our development efforts are augmented by development arrangements with research institutions, key customers, materials suppliers and hardware suppliers. Research and development expenses were \$15.4 million, \$11.0 million and \$7.8 million in 2002, 2001, and 2000, respectively. For the foreseeable future, we anticipate that our research and development efforts will focus on material functionality and system design improvements, and developing software to facilitate the interface between our solid imaging systems and digital data from CAD solid programs, scanners, and other peripheral equipment and software. We have dedicated a significant amount of time to the development of new materials for all systems. In September 2001, with the acquisition of RPC, we expanded our SL materials' research capabilities.

We believe that further refinements in MJM technology will come as a result of investment in the areas of material development, solid imaging processes and the printing mechanism. We believe synthetic specialty chemicals will allow future SIM formulations to demonstrate significant improvement in the material durability and other mechanical properties, and that investment in the solid imaging build processes will result in improvements in the quality of the model output from the build process. We believe these improvements will include faster model build times, higher resolution and smaller layer steps, more accurate geometry representation and smoother and more uniform surface finish on all surfaces of the finished model. In 2002, we continued our research into new MJM materials and processes, devoting a large portion of the year to the development of improved materials directed at addressing the top customer-identified requirements, including part durability, down-facing surface quality and post-processing effort. By combining our knowledge of both MJM and SL material technology, we introduced the InVision 3-D printer in July 2002. We anticipate that, when commercialized, the new materials and delivery system will more appropriately meet the needs of the design communication, office and rapid prototyping markets.

We continue our research and development in the field of materials. Our research and development facilities are located in Marly, Switzerland and Valencia, California. The R&D team focuses our development on SL, LS and MJM materials. In 2002, we announced the development of a steel composite material and the research of aluminum and flame retardant nylon for the SLS system. We continue to drive our research and development efforts for the SL material line focusing on general materials for the rapid prototyping industry as well as specialized materials for the advanced digital manufacturing industry.

Marketing and Customers

Our sales and marketing strategy focuses on a wide range of customer needs, including traditional model, mold and prototyping, office uses and advanced digital manufacturing. Our internal sales organization is responsible for overseeing worldwide sales and value-added resellers, and our knowledgeable international distributors provide sales and support services in areas remote from our sales offices. Our direct sales force consists of sales persons based in our corporate office in California and in satellite offices throughout North America; in our European offices located near Frankfurt, London, Paris, Milan and in our Hong Kong and Japan offices, which serve the Pacific Rim region. An internal staff of application specialists is a key part of the marketing organization effort to provide pre-sales support and to help existing customers take advantage of the latest materials and techniques to improve part quality and machine productivity. This group also leverages its customer contacts to help identify new application opportunities that utilize our proprietary processes.

Our marketing programs utilize a combination of seminars, trade shows, advertising, direct mailings, literature, web presence, videos, press releases, brochures and customer and application profiles to identify prospects that match a typical user profile. As of December 31, 2002, our worldwide sales and support staff consisted of 91 employees that are primarily located in the United States and Europe.

International Sales. International sales, the majority of which are in Europe and Asia, accounted for 50.6%, 48.6%, and 46.2% of total sales in the years ended December 31, 2002, 2001 and 2000, respectively. (See Note 19 in the "Notes to Consolidated Financial Statements").

Customers. Our customers include major companies in a broad range of industries throughout the world, including manufacturers of automotive, aerospace, computer, electronic, consumer and medical products. Purchasers of our systems include original equipment manufacturers, or OEMs, such as AMP, Inc., Apple Computer, Inc., Audi AG, Boeing Company, BMW Group, Canstar Sports, Inc., DaimlerChrysler Corp., Dallara Automobili, Eastman Kodak Company, The Electrolux Group, General Electric Company, General Motors Corporation, Delphi Automotive Systems, Hasbro, Inc., Jordan Grand Prix, International Business Machines

Corporation, Johnson & Johnson, Levolor, Minardi Formula 1, Motorola, Inc., Navistar International Corporation, Nike, Inc., ODM (On-Demand Manufacturing), a subsidiary of Boeing, Pratt & Whitney, Penske Racing, Raytheon Company, Renault F1 Team and Texas Instruments, Inc. We also sell our products to government agencies and universities, which generally use our machines for research activities, and to independent service bureaus, including Arrk Creative Network, General Pattern, Moehler Design and INCS, Inc.,

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which for a fee provide solid imaging services to their customers. Each of Renault F1 Team, ODM, a subsidiary of Boeing, Widex and Siemens Hearing Instruments established ADM centers in 2002.

Photopolymer Distribution Agreement. Pursuant to an agreement with Vantico, we had been the exclusive worldwide distributor (except in Japan) to users of SL processes of all Vantico liquid SL photopolymers. This agreement terminated on April 22, 2002.

Customer Support and Service. Before installation of an SLA or SLS system, a new purchaser generally receives training at our facilities. For the first several days after installation, an applications engineer remains at the customer location to ensure that the customer is able to operate the system effectively and to answer any questions that may arise. We also make available to our customers, for a fee, additional training courses in system features and applications. Training is not generally necessary for use of a ThermoJet printer.

We offer maintenance contracts to our customers, which generate recurring revenue. We also make available, in the United States, a hotline to all of our maintenance contract users. The hotline is staffed with technical representatives who answer questions and arrange for on-site remedial services if necessary. The hotline is available Monday through Friday, local holidays excepted, 5:00 a.m. to 5:00 p.m. Pacific time. In addition, customer service, troubleshooting and answers to frequently asked questions, or FAQs, are available through our website, www.3dsystems.com. Customers may also reach us through e-mail, 24 hours a day.

We co-founded and participate in Global User Groups, which include a substantial number of our customers. The User Groups organize annual conferences in the United States, at which we make presentations relating to updates in stereolithography and selective laser sintering, changes we have implemented in our systems and related equipment, materials and software and future ideas and programs we intend to pursue in the upcoming years.

Production and Supplies

All of our systems are assembled and SIM (Solid Imaging Material) is produced at our 67,000 square foot facility in Grand Junction, Colorado. We produce stereolithography materials at our facility in Marly, Switzerland. We manufacture lasers in our facility in Valencia, California. We purchase the major component parts for our systems and materials for SIM and resin from outside sources and arrange with contract manufacturers for the manufacture of subassemblies. We integrate the subassemblies and effect final assembly and test of all systems at our production facility. We perform numerous diagnostic tests and quality control procedures on each system to assure its operability and reliability.

Although there is more than one potential supplier for many material components parts, subassemblies and materials, several of the critical components, materials, and subassemblies, including lasers, materials, and certain ink jet components, are currently provided by a single or limited sources.

Our production methods are subject to compliance with applicable federal, state, and local provisions regulating the discharge of materials into the environment. We believe that we are in compliance with such regulations currently enacted and continued compliance will not have any material effect on our capital expenditures, earnings and competitive position. Currently we utilize a cleaning solvent that is the subject of a waiver of environmental provisions within the South Coast Air Quality Management District that includes our Valencia, California facility. The waiver expires June 30, 2005 at which time we may be required to switch to a different cleaning solvent. The impact on earnings should not be material.

Competition and Patent Rights

Our principal competitors are companies that manufacture machines that make models, prototypes, molds and small volume manufacturing parts, which include: suppliers of automated machining, or CNC, and rotational molding equipment; suppliers of traditional machining, milling and grinding equipment; and FDM

(Fused Deposition Modeling) technology; Parts-in-Minutes and makers of vacuum casting silicon molding equipment; and manufacturers of other SL, LS and 3-D printing systems. These suppliers are numerous, both international and regional in scope, and many have well-recognized product lines that compete with us in essentially all of our served and targeted customer areas. Conventional machining and milling techniques continue to be the most common methods by which plastic and metal parts, models, functional prototypes and metal tool inserts are manufactured. Conventional pattern manufacturing techniques continue to be the most common methods to custom manufacture parts and by which patterns are made for use in investment casting.

We believe there are no products that use operating technologies like our SLA or SLS systems currently being sold in significant quantities in the United States; however, products similar to our SLA systems are manufactured and sold by other companies in the Pacific Rim, and products similar to our SLS systems are manufactured and sold by other companies in Europe and the Pacific Rim. In addition, we anticipate additional competition with respect to SL technology in the U.S., Canada and Mexico as a result of our license agreement with Sony Corporation with respect to our SL technology entered into pursuant to the terms of our consent decree with the Department of Justice.

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We believe that other companies may announce plans to enter our business area either with equipment similar to ours, or with other types of equipment. We believe that currently available alternatives to SL generally are not able to produce models having the dimensional accuracy and fine surface finish of models provided by our SL process. However, non-SL competitors have successfully marketed their products to our existing and potential customers. Furthermore, in many cases, the existence of these competitors extends the purchasing time while customers investigate alternative systems. We compete primarily on the basis of the quality of our products and the advanced state of our technology. We believe that LS has become established as a leading operating technology for the production of functional plastic prototypes and that we have the largest installed base of LS machines in the world.

We believe that our patents will continue to help us maintain a leading position in the SL, LS and MJM fields.

A number of companies are currently selling materials which either complement or compete with those we sell DSM Desotech Inc., and others, are currently selling SL resins. In addition, upon termination of our distribution agreement with Vantico, Vantico began selling competing resins. We believe that we supply approximately 50% of the worldwide market for SL resins used in our SLA systems. EOS and others are currently selling LS powdered materials. We believe we currently supply powders to the majority of the LS systems currently installed worldwide.

Future competition is expected to arise both from the development of new technologies or techniques not encompassed by the patents held by or licensed to us, and through improvements to existing technologies, such as CNC and rotational molding. We have determined to follow a strategy of continuing product development and aggressive patent prosecution to protect ourselves to the extent possible in these areas.

Proprietary Protection

Charles W. Hull, the Company's founder and Chief Technology Officer, developed the stereolithography technology used in our SLA product lines, while employed by UVP, Inc. This technology was originally patented by UVP, Inc. and subsequently licensed to us in 1986. We acquired the patent in 1990.

Researchers at The University of Texas initially developed the selective laser sintering technology commercialized by DTM. The first selective laser-sintering patent was issued to The University of Texas in 1989. Currently, we have exclusive rights to 15 U.S. patents issued to The University of Texas. Two of the original University of Texas patents expire in 2006 while others run until 2014. Patents granted on improvements to the original patent as well as new patents that we have obtained extend some protection to at least 2010. Our exclusive worldwide license from The University of Texas to use the selective laser sintering technology continues until expiration of the patent rights that are the subject of the license.

We developed the thermoplastic material used in the application of ink jet technology to solid imaging. During 1999, we acquired two patents from Dataproducts Corporation for dot-on-dot printing technology in order to increase our patent protection in the MJM area.

In connection with the acquisition of OptoForm in February 2001, we acquired technology, know-how and patent rights, which have remaining lives of over 15

years, related to a technology using composites in direct manufacturing. The acquired U.S. and foreign patent rights protect the basic recoating mechanism and materials used in the direct composite manufacturing process.

We do not have the breadth of patent protection for the solid object printers that we have for our SL and LS technology; however, as noted above, during 1999 we acquired two patents for dot-on-dot printing technology from Dataproducts Corporation in order to help us maintain our position in this field. In April 2002, we obtained the exclusive right, subject to one existing license, with enforcement rights to a patent for 3-dimensional printing using two different materials from Richard Helinski. In July of 2002, we reached an agreement with Sanders Design International, Inc. (SDI) of Wilton, NH, to settle a patent infringement suit that was pending in the U.S. District Court for the District of New Hampshire. According to the settlement, all parties agreed that the Helinski patent was valid and had been infringed by SDI. SDI agreed to pay us for past infringement for all machines manufactured or in production as of the date of the settlement agreement. In addition, SDI agreed to pay a running royalty of 6% for all future systems manufactured under the patent and for all consumables sold for use in their machines.

At December 31, 2002, we had 359 patents, which include 152 in the United States, 146 in Europe, 17 in Japan and 44 in other foreign countries. At that date, we also had 176 pending patent applications: 52 in the United States, 53 in Japan, 48 in European countries and 23 other foreign countries. As new developments and components to the technology are discovered, we intend to apply for additional patents.

Application for a patent offers no assurance that a patent will be issued as applied for. Issuance of a patent offers no assurance that the patent can be protected against any claims of invalidation or that the patent can be enforced against any infringement. In addition, litigation of patent issues can be costly and time-consuming.

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Employees

At December 31, 2002, we had 416 full-time employees. In addition, at that same date we utilized the services of six independent contractors and one consultant. None of these employees or independent contractors is covered by labor agreements. We consider our relations with our employees and independent contractors to be satisfactory.

On July 24, 2002, we substantially completed a reduction in workforce, which eliminated 109 positions out of our total workforce of 523 or approximately 20% of the total workforce. In addition, we closed our existing office in Austin, Texas that we acquired as part of our acquisition of DTM, as well as our sales office in Farmington Hills, Michigan. This was the second reduction in force completed in 2002. On April 9, 2002, the Company eliminated approximately 10% of its total workforce.

Website Availability of Our Reports Filed with the Securities and Exchange Commission

We maintain a website with the address www.3dsystems.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this filing. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file that material with, or furnish that material to, the Securities and Exchange Commission.

Item 2. Properties

Our principal administrative functions, sales and marketing, product development, technology center and training facilities are located in a 78,320 square foot building in Valencia, California. The lease for this property, which was originally to expire on December 31, 2002, has been extended until December 31, 2007, and is subject to an optional five-year extension.

We also lease sales and service offices in Texas. The space leased for sales and service offices is generally for one or two occupants and for terms of a year or less. Sales and service offices are also located in four countries in the European Community (France, Germany, the United Kingdom and Italy), Malaysia, Japan and Hong Kong.

A significant portion of our manufacturing and United States customer support operations are located in a 67,000 square foot facility located in Grand

Junction, Colorado. The construction cost of the Colorado facility has been financed through a \$4.9 million industrial development bond. To secure the reimbursement agreement with Wells Fargo relating to the letter of credit collateralizing these bonds, we executed a deed of trust, security agreement and assignment of rents, an assignment of rents and leases, and a related security agreement encumbering the Grand Junction facility and certain personal property and fixtures located there. In addition, the Grand Junction facility is encumbered by a second deed of trust in favor of Mesa County Economic Development Council, Inc. ("MCEDCI"), securing \$.8 million in allowances granted to us by MCEDCI pursuant to an Agreement dated October 4, 1995.

We closed our facility located in Austin, Texas. Approximately 50,000 square feet of space remains subject to a lease until December 31, 2006. Of this space, approximately 20,000 square feet has been sublet.

We believe that the facilities described above will be adequate to meet our needs for the immediate future.

Item 3. Legal Proceedings

3D Systems, Inc. vs. Aaroflex, et al. On January 13, 1997, we filed a complaint in U.S. District Court, Central District of California, against Aarotech Laboratories, Inc., Aaroflex, Inc. and Albert C. Young. Aaroflex is the parent corporation of Aarotech. Young is the Chairman of the Board and Chief Executive Officer of both Aarotech and Aaroflex. The original complaint alleged that stereolithography equipment manufactured by Aaroflex infringes six of our patents. In August 2000, two additional patents were added to the complaint. The Company seeks damages and injunctive relief from the defendants, who have threatened to sue the Company for trade libel. To date, the defendants have not filed such a suit.

Following decisions by the District Court and the Federal Circuit Court of Appeals on jurisdictional issues, Aarotech and Mr. Young were dismissed from the suit, and an action against Aaroflex is proceeding in the District Court. Motions for summary judgment by Aaroflex on multiple counts contained in our complaint and on Aaroflex's counterclaims have been dismissed and fact discovery in the case has been completed. Our motions for summary judgment for patent infringement and validity and Aaroflex's motion for patent invalidity were heard on May 10, 2001. In February 2002, the court denied Aaroflex's invalidity motions. On April 24, 2002, the court denied our motions for summary judgment on infringement, reserving the right to revisit on its own initiative the decisions

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following the determination of claim construction. The court also granted in part our motion on validity. The case is scheduled for trial commencing on August 5, 2003, and the trial is scheduled to last for three weeks.

DTM vs. EOS, et al. The plastic sintering patent infringement actions against EOS began in France (Paris Court of Appeals), Germany (District Court of Munich) and Italy (Regional Court of Pinerolo) in 1996. Legal actions in France, Germany and Italy are proceeding. EOS had challenged the validity of two patents related to thermal control of the powder bed in the European Patent Office, or EPO. Both of those patents survived the opposition proceedings after the original claims were modified. One patent was successfully challenged in an appeal proceeding and in January 2002, the claims were invalidated. The other patent successfully withstood the appeal process and the infringement hearings were re-started. In October 2001, a German district court ruled the patent was not infringed, and this decision is being appealed. In November 2001, we received a decision of a French court that the French patent was valid and infringed by the EOS product sold at the time of the filing of the action and an injunction was granted against future sales of the product. EOS filed an appeal of that decision in June 2002. That action is pending. In February 2002, we received a decision from an Italian court that the invalidation trial initiated by EOS was unsuccessful and the Italian patent was held valid. The infringement action in a separate Italian court has now been recommenced and a decision is expected based on the evidence that has been submitted.

In 1997, DTM initiated an action against Hitachi Zosen Joho Systems, the EOS distributor in Japan. In May 1998, EOS initiated two invalidation trials in the Japanese Patent Office attempting to have DTM's patent invalidated on two separate bases. The Japanese Patent Office ruled in DTM's favor in both trials in July 1998, effectively ruling that DTM's patent was valid. In September 1999, the Tokyo District Court then ruled in DTM's favor and granted a preliminary injunction prohibiting further importation and selling of the infringing plastic sintering EOS machine. In connection with this preliminary injunction, DTM was required to place 20 million yen, which is approximately \$200,000, on deposit with the court towards potential damages that Hitachi might claim should the

injunction be reversed. Based on the Tokyo District Court's ruling, EOS then filed an appeal in the Tokyo High Court to have the rulings of the Japanese Patent Office revoked. On March 6, 2001, the Tokyo High Court ruled in EOS's favor that the rulings of the Japanese Patent Office were in error. As a result, the Tokyo High Court found that Hitachi Zosen was not infringing DTM's patent. These rulings were unsuccessfully appealed by DTM to the Tokyo Supreme Court. We amended the claims and the patent was reinstated in a corrective action in 2002 and no further challenges to the patent are pending in this matter.

Hitachi Zosen vs. 3D Systems, Inc. On November 25, 2002, 3D Systems was served with a complaint through the Japanese Consulate General from EOS' Japanese distributor, Hitachi Zosen, seeking damages in the amount of 535,293,436 yen (approximately \$4.5 million), alleging lost sales during the period in which DTM Corporation had an injunction in Japan prohibiting the sale of EOS EOSint P350 laser sintering systems. Initial procedural hearings occurred in March and April 2003 in Tokyo District Court, with a third preliminary hearing scheduled for June 30, 2003.

EOS vs. DTM and 3D Systems, Inc. In December 2000, EOS filed a patent infringement suit against DTM in the U.S. District Court, Central District of California. EOS alleges that DTM has infringed and continues to infringe certain U.S. patents that 3D licenses to EOS. EOS has estimated its damages to be approximately \$27 million for the period from the fourth quarter of 1997 through 2002. In April 2001, consistent with an order issued by the federal court in this matter, we were added as a plaintiff to the lawsuit. On October 17, 2001, we were substituted as a defendant in this action because DTM's corporate existence terminated when it merged into our subsidiary, 3D Systems, Inc. on August 31, 2001. In February 2002, the court granted summary adjudication on our motion that any potential liability for patent infringement terminated with the merger of DTM into 3D Systems, Inc. Concurrently, the court denied EOS's motion for a fourth amended complaint to add counts related to EOS's claim that 3D Systems, Inc. is not permitted to compete in the field of laser sintering under the terms of the 1997 Patent License Agreement between 3D Systems, Inc. and EOS. 3D Systems, Inc. filed counterclaims against EOS for the sale of polyamide powders in the United States based on two of the patents acquired in the DTM acquisition. The discovery cut off date was on January 20, 2003. A motion by 3D Systems, Inc. for a preliminary injunction was denied by the court on May 14, 2002. The court rescheduled the trial date to October 7, 2003.

3D Systems, Inc. vs. AMES. In April 2002, we filed suit for patent infringement against Advanced Manufacturing Engineering Systems of Nevada, Iowa for patent infringement related to AMES' purchase and use of EOS powders in the Company's SLS system. On June 24, 2002, upon motion by the defendants, this matter was stayed pending trial of the EOS vs. DTM and 3D Systems, Inc. matter described immediately above. We have been informed that Ames is no longer in business and is in the process of requesting a dismissal of the action.

EOS GmbH Electro Optical Systems vs. 3D Systems, Inc. On January 21, 2003, we were served with a complaint that had been filed in May of 2002 in Regional Court, Commerce Division, Frankfurt, Germany, seeking 1,000,000 Euros for the alleged breach of a non-competition agreement entered into in 1997. We answered the complaint on April 25, 2003. At a hearing on June 27, 2003, the court advised the parties that it intends to issue a decision in this matter on September 27, 2003.

Board of Regents, The University of Texas System and 3D Systems, Inc. v. EOS GmbH Electro Optical Systems. On February 25, 2003, 3D Systems, along with the Board of Regents of the University of Texas, filed suit against EOS GmbH Electro Optical Systems ("EOS") in the United States District Court, Western District of Texas seeking damages and injunctive relief arising from violation of

U.S. Patents Nos. 5,597,589 and 5,639,070, which are patents relating to laser sintering which have been licensed by the University of Texas to 3D. On March 25, 2003, EOS filed its answer to this complaint, along with counterclaims including breach of contract and antitrust violations.

Regent Pacific Management Corporation v. 3D Systems Corporation. On June 11, 2003, Regent Pacific Management Corporation filed a complaint against us for breach of contract in the Superior Court of the State of California, County of San Francisco. Regent provided management services to us from September 1999 through September 2002. Regent alleges that we breached non-solicitation provisions in our contract with it by retaining the services of two Regent contractors following the termination of the contract. Regent seeks \$780,000 in liquidated damages together with reasonable attorney's fees and costs. We currently are evaluating the complaint.

SEC Inquiry. We received an inquiry from the SEC relating to our revenue recognition practices. The Audit Committee has completed its own inquiry into

the matter and shared its findings with the SEC. To date, the Company has not been notified that the SEC has initiated a formal investigation.

In addition, 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 have been advised that we currently are not a target of the grand jury investigation, and we are complying with the subpoena.

The Company is engaged in certain additional legal actions arising in the ordinary course of business, and, on the advice of legal counsel, the Company believes it has adequate legal defenses and that the ultimate outcome of these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

No matters were submitted to a vote by security holders during the fourth quarter of fiscal 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The following table sets forth, for the periods indicated, the range of high and low bid information per share of our common stock as quoted on the Nasdaq Stock Market's National Market. The Company's stock was traded under the symbol "TDSC" until April 15, 2003 when, due to delinquent filings, the symbol was changed to "TDSCE."

Year	Period	Historic Prices	
		High	Low
2001	First Quarter	\$ 14.56	\$ 8.81
	Second Quarter	18.52	9.69
	Third Quarter	16.70	11.51
	Fourth Quarter	15.09	9.73
2002	First Quarter	15.90	9.16
	Second Quarter	15.80	10.80
	Third Quarter	13.55	5.75
	Fourth Quarter	8.51	4.98
2003	First Quarter	10.15	4.10
	Second Quarter (through May 30)	6.70	4.00

As of May 30, 2003, the outstanding common stock was held of record by 435 stockholders.

Dividends

We have not paid any dividends on our common stock and currently intend to retain any future earnings for use in our business. In addition, our loan documents place limitations on our ability to pay dividends or make other distributions in respect of our common stock. Also, holders of our Series B Convertible Preferred Stock are entitled to receive, when, and if declared by our Board of Directors, but only out of funds that are legally available therefor, cash dividends at the rate of 8% of the Series B issuance price per share per annum, which may be increased to 10% under certain circumstances. No dividends may be paid on any shares of common stock or on shares of any other stock ranking junior to the Series B Convertible Preferred Stock unless all accrued and unpaid dividends have first been declared and paid in full with respect to the Series B Convertible Preferred Stock.

Any future determination as to the payment of dividends on our common stock will be restricted by these limitations, will be at the discretion of our board of directors and will depend upon our earnings, operating and financial condition and capital requirements, and other factors deemed relevant by our board of directors, including the General Corporation Law of the State of Delaware, which

provides that dividends are only payable out of surplus or current net profits.

Equity Compensation Plans

The following table summarizes information about the equity securities authorized for issuance under our compensation plans as of December 31, 2002. For a description of these plans, please see Note 15, Stockholders' Equity and Stockholders' Rights Plan, in our Consolidated Financial Statements.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
	-----	-----	-----
	(shares in thousands)		
Equity compensation plans approved by stockholders	2,302	\$ 11.48	803
Equity compensation plans not approved by stockholders	316	9.57	389
	-----		-----
Total	2,618	11.25	1,192
	=====		=====

Recent Sales of Unregistered Securities

On May 5, 2003, we sold 2,634,016 shares of our Series B Convertible Preferred Stock for aggregate consideration of \$15.8 million. The preferred stock accrues dividends at 8% per share and is convertible at any time into approximately 2,634,016 shares of common stock. The stock is redeemable at the Company's option at any time after the third anniversary date. The Company must redeem any shares of preferred stock outstanding on the tenth anniversary date. The redemption price is \$6.00 per share plus accrued and unpaid dividends. We did not employ any form of general solicitation or general advertising in connection with the offer and sale of these securities. In addition, the purchasers of the securities are "accredited investors" for purposes of Rule 501 of the Securities Act. For these reasons, among others, the offer and sale of these securities were exempt from registration pursuant to Rule 506 of Regulation D of the Securities Act.

Item 6. Selected Financial Data

The following summary of selected financial data for the periods set forth below has been derived from our audited financial statements. You should read the information as of December 31, 2002 and 2001, and for the fiscal years ended December 31, 2002, 2001 and 2000 in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition and with our consolidated financial statements appearing elsewhere in this Form 10-K. The selected financial data as of and for the years ended December 31, 2001 and 2000, has been restated. For additional information regarding the restatement, please refer to Note 24 to the Consolidated Financial Statements included in

Item 8.

Unless otherwise expressly stated, all financial information in this Report is presented inclusive of the changes made to the financial statements for the years ended December 31, 2001 and 2000. The reconciliation of previously reported amounts to the amounts currently being reported is presented in the accompanying Notes to Consolidated Financial Statements appearing in Item 8, Note 24 to our Consolidated Financial Statements.

	Years Ended December 31,				
	2002	2001 (as restated)	2000 (as restated)	1999	1998

	(in thousands, except per share amounts)				
Statements of Operations Data:					
Sales:					
Products (1)	\$ 81,039	\$ 84,558	\$ 79,857	\$ 66,806	\$ 65,434
Services (2)	34,922	34,182	29,429	30,143	32,683
	-----	-----	-----	-----	-----
Total sales	115,961	118,740	109,286	96,949	98,117

Cost of sales:					
Products(1)	43,398	42,278	34,969	35,938	33,477
Services(2)	25,942	24,961	21,729	20,975	22,062
Total cost of sales	69,340	67,239	56,698	56,913	55,539
Gross profit	46,621	51,501	52,588	40,036	42,578
Operating expenses:					
Selling, general and administrative	48,331	42,807	32,710	35,273	30,448
Research and development	15,366	11,010	7,814	8,931	9,425
Severance and other restructuring costs	4,354	---	---	3,384	---
Total operating expenses	68,051	53,817	40,524	47,588	39,873
(Loss) income from operations	(21,430)	(2,316)	12,064	(7,552)	2,705
Interest and other (expense) income, net	(2,991)	(1,033)	115	11	482
Gain on arbitration settlement	18,464	---	---	---	---
(Loss) income before income taxes	(5,957)	(3,349)	12,179	(7,541)	3,187
Provision for (benefit from) income taxes	8,909	(992)	4,309	(2,240)	1,055
Net (loss) income	\$ (14,866)	\$ (2,357)	\$ 7,870	\$ (5,301)	\$ 2,132
Shares used to calculate basic net (loss) income per share	12,837	12,579	11,851	11,376	11,348
Basic net (loss) income per share	\$ (1.16)	\$ (.19)	\$.66	\$ (.47)	\$.19
Shares used to calculate diluted net (loss) income per share	12,837	12,579	12,889	11,376	11,594
Diluted net (loss) income per share	\$ (1.16)	\$ (.19)	\$.61	\$ (.47)	\$.18

At December 31,

	2002	2001 (as restated)	2000 (as restated)	1999	1998
Balance Sheet Data:					
Working (deficit) capital	\$ (8,608)	\$ 16,008	\$ 44,275	\$ 31,219	\$ 38,305
Total assets	132,233	164,942	109,623	90,658	95,103
Current portion of long-term debt	10,500	3,135	120	110	100
Long-term liabilities, excluding current portion	17,487	33,179	7,585	9,168	6,090
Stockholders' equity	59,866	78,429	71,522	59,608	66,557

(1) Includes systems and related equipment, material, software and other component parts as well as rentals of equipment.

(2) Includes maintenance services provided by our technology centers and training services.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

The Consolidated Financial Statements as of and for the years ended December 31, 2001 and 2000 included in this Form 10-K have been restated. For additional information regarding the restatement, please refer to Item 14 Controls and Procedures and Note 24 to the Consolidated Financial Statements included in Item 8. All applicable financial information presented in this Item 7 has been restated to take into account the effects of the restatements described in Note 24 to the Consolidated Financial Statements.

The following discussion should be read in conjunction with our consolidated financial statements provided under Part II, Item 8 of this Annual Report on Form 10-K. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein.

The forward-looking information set forth in this Annual Report on Form 10-K, or this Report, is as of June 30, 2003, and we undertake no duty to update this information. More information about potential factors that could affect our business and financial results is included in the section entitled "Cautionary Statements and Risk Factors" of this Report.

Restatement

Deloitte and Touche LLP, which we refer to in this Report as Deloitte, the Company's independent auditor, in connection with its audit of our consolidated financial statements for fiscal year 2002, identified 12 equipment sales transactions for which revenue had been recognized in the fourth quarter of 2002, which Deloitte believed should have been recognized in other periods. Deloitte brought these issues to the attention of management. Management

immediately notified the Audit Committee of the Board of Directors.

In response, the Audit Committee, which is comprised entirely of independent directors, immediately commenced an investigation into our equipment revenue recognition policies generally, and specifically with regard to the 12 equipment sales transactions identified by Deloitte, and other related or similar transactions. To assist it in this investigation, the Audit Committee retained Morgan Lewis & Bockius, LLP, which we refer to in this report as Morgan Lewis, as independent counsel, and Morgan Lewis retained the accounting firm of BDO Seidman, LLP, which we refer to in this Report as BDO, to provide forensic accounting services in support of its work. The investigation included a review of significant equipment sales transactions of the Company during the period from October 1, 2001 through December 31, 2002, to assess the revenue recognition policies applied to these transactions, whether these equipment sales transactions were departures from our stated revenue recognition policy and accounting principles generally accepted in the United States of America and the reasons for any departures.

As a result of the investigation by the Audit Committee, we have restated our previously issued financial statements for the years ended December 31, 2001 and 2000. The restatement arose from the adjustments of certain income statement items which principally relate to the treatment and timing of revenue recognition of a small percentage of total equipment sales transactions. The effect of the adjustments for the year ended December 31, 2001 is to decrease the Company's previously reported fiscal 2001 consolidated revenues from \$121.2 million to \$118.7 million, increase net loss from \$1.3 million to \$2.4 million and increase diluted loss per share from \$0.11 to \$0.19. For the year ended December 31, 2000, the effect of these adjustments is to decrease the Company's previously reported fiscal 2000 consolidated revenues from \$109.7 million to \$109.3 million, decrease net income from \$8.1 million to \$7.9 million and decrease diluted income per share from \$0.63 to \$0.61. At the direction of the Audit Committee, the Company is implementing changes to its financial organization and enhancing its internal controls in response to issues identified in the investigation and otherwise raised by the restatement. These changes are more fully discussed in Item 14 of this Report.

Unless otherwise expressly stated, all financial information in this Report is presented inclusive of these income statement changes and other adjustments. The reconciliation of previously reported amounts to the amounts currently being reported is presented in Note 24 of the accompanying Notes to Consolidated Financial Statements in this Report.

Overview

We develop, manufacture and market worldwide solid imaging systems designed to reduce the time it takes to produce three-dimensional objects. Our products produce physical objects from the digital output of solid or surface data from computer aided design and manufacturing, which we refer to as CAD/CAM, and related computer systems, and include SLA(R) and SLS(R) systems and ThermoJet(R) solid object printers.

SLA systems use our proprietary stereolithography technology, which we refer to as SL, an additive solid imaging process which uses a laser beam to expose and solidify successive layers of photosensitive resin until the desired object is formed to precise specifications in epoxy or acrylic resin. SLS systems utilize a proprietary process called selective laser sintering, which we refer to as the SLS process, which uses laser energy to sinter powdered material to create solid objects from powdered materials. LS and SL-produced parts can be used for concept models, engineering prototypes, patterns and masters for molds, consumable tooling, and short-run manufacturing of final product, among other applications. ThermoJet solid object printers employ hot melt ink jet technology to build

models in successive layers using our proprietary thermoplastic material. These printers, about the size of an office copier, are network-ready and are designed for operation in engineering and design office environments. The ThermoJet printer output can be used as patterns and molds, and when combined with other secondary processes such as investment casting, can produce parts with representative end-use properties.

Our customers include major corporations in a broad range of industries including service bureaus and manufacturers of automotive, aerospace, computer, electronic, consumer and medical products. Our revenues are generated by product and service sales. Product sales are comprised of sales of systems and related equipment, materials, software and other component parts, as well as rentals of systems. Service and warranty sales include revenues from a variety of on-site maintenance services and customer training.

For the year ended December 31, 2002, the continued general economic slowdown in capital equipment spending worldwide impacted both revenues and earnings. In 2002, SLA system unit sales were down 26.8% and SLS system unit sales were down 41.3% from 2001 (comparing the combined results of 3D Systems and DTM Corporation for both periods). This had a significant impact on both revenue and overall gross margin and we expect this to continue in 2003.

We recognize the importance of recurring revenue to moderate the impact that fluctuations in capital spending has on our high end equipment revenue. The following table reflects recurring revenues (service and material sales) and non-recurring revenues (system sales and related equipment) and those revenues as a percentage of total revenues for the periods indicated below:

	Years Ended December 31,		
	2002	2001	2000
Recurring sales	\$ 66,541	\$ 64,815	\$ 54,696
Non-recurring sales	49,420	53,925	54,590
Total sales	\$ 115,961	\$ 118,740	\$ 109,286
Recurring sales	57.4%	54.6%	50.0%
Non-recurring sales	42.6%	45.4%	50.0%
Total sales	100.0%	100.0%	100.0%

The market for our capital equipment has been impacted by overall economic conditions since the second quarter of 2001. Consequently, we reduced our cost structure by implementing an approximate 10%, or 63 employees, reduction in workforce worldwide in April of 2002. After reviewing our results for the second quarter of 2002 and the long-term prospects for the worldwide economy, we took additional measures to realign our projected expenses with anticipated revenue levels. During the third quarter of 2002, we closed our existing facilities in Austin, Texas and Farmington Hills, Michigan and reduced our workforce by an additional 20% or 109 employees. As a result of these activities, we recorded charges of \$1.6 million and \$2.7 million in the quarters ending June 28, 2002 and September 27, 2002, respectively.

Sales into the Advanced Digital Manufacturing ("ADM") market continue to increase including sales related to aerospace, motorsports, jewelry, and hearing aids. Our ADM revenue was \$37.2 million or 32.2% of our overall revenue in 2002, and we believe that the market demand for new ADM applications continues to grow. During 2002, we placed 7 systems into aerospace applications, a total of 11 systems into motorsports, and 22 systems into jewelry related applications as well as several other ADM applications.

During 2002, we announced that we are developing four new materials for use in our SLS systems and the release of another series of resins for our SLA systems. New materials such as aluminum, hard steel, flame retardant nylon (for commercial aerospace applications) and a resin that mimics nylon material, are focused on meeting the opportunities available in ADM and will significantly expand the range of applications for which we can provide solid imaging solutions.

On March 19, 2002, we reached a settlement agreement with Vantico relating to the termination of the Distribution and Research and Development Agreement which required Vantico to pay us \$22 million through payment of cash or delivery of 1.55 million shares of 3D Systems common stock. On April 22, 2002, Vantico delivered the 1.55 million shares of our common stock to us. Under our distribution contract with Vantico, we were the exclusive worldwide distributor of Vantico photosensitive liquid resins for stereolithography. Our material revenue, excluding DTM related revenues, declined to \$17.0 million for the year ended December 31, 2002 from \$25.5 million for the year ended December 31, 2001, as a result of the termination of the distribution agreement and prices have fallen significantly as a result of increased competition. On September 20, 2001, we acquired RPC, an independent supplier of stereolithography resins which has enabled us to solicit customers to transition from Vantico material to RPC material. We believe that many customers have converted to our RPC resins and that we supply approximately 50% of the worldwide market for SL resins used in our SLA systems. We

business. We are moving forward with our retail materials strategy with our Accura(TM) SL materials which we launched on April 23, 2002.

On July 9, 2002, the United States Department of Justice approved Sony Corporation as the licensee for certain of our technology, as provided for by the Final Judgment issued on April 17, 2002, by the United States District Court for the District of Columbia, relating to our acquisition of DTM Corporation. Under the terms of the license agreement, we have granted a license to Sony for certain of our North American patents and software copyrights for use only in the field of stereolithography within North America (consisting of the United States, Canada and Mexico) together with a list of our North American stereolithography customers, in exchange for a license fee of \$900,000, which we received and recorded into revenue in August 2002. In addition, we recorded \$450,000 in cost of sales associated with the license fee. This license applies only to those North American patents which we owned or licensed as of April 17, 2002, as well as any applied-for patents as of April 17, 2002, that cover technology marketed prior to April 17, 2002 for use in the field of stereolithography. The license does not apply to technology that we may develop in the future. The license is perpetual, assignable, transferable and non-exclusive, but there is no right to sublicense except as necessary to establish distribution and to outsource manufacturing.

On August 24, 2001, we completed our acquisition of DTM in which we purchased all of the outstanding shares of common stock of DTM for approximately \$45 million in cash. DTM's operations have been fully integrated into our existing business allowing us to realize synergies and cost savings. The acquisition allows us to offer our customers an expanded product line and increases our capabilities in the areas of advanced digital manufacturing and rapid tooling, which we have identified as areas of significant opportunity for us for 2002 and beyond.

In February 2001, we acquired the stock and intellectual property of OptoForm SARL ("Optoform"). The OptoForm technology is capable of producing products with metal and ceramic properties. The aggregate purchase price was \$2.6 million, of which \$1.4 million was settled in cash at the time of closing and \$1.2 million was paid in February 2002. The acquisition of OptoForm has allowed us to continue to expand our product offerings and increase our capabilities in the areas of advanced digital manufacturing and rapid tooling.

In September 2001, we acquired the stock of RPC Ltd., a manufacturer of stereolithography material. The aggregate purchase price was \$5.5 million. (See note 10 of the Notes to Consolidated Financial Statements)

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make critical accounting estimates that directly impact our consolidated financial statements and related disclosures. Critical accounting estimates are estimates that meet two criteria: (1) the estimates require that we make assumptions about matters that are highly uncertain at the time the estimates are made; (2) there exist different estimates that could reasonably be used in the current period, or changes in the estimates used are reasonably likely to occur from period to period, both of which would have a material impact on the presentation of the financial condition or our results of our operations. On an on-going basis, we evaluate our estimates, including those related to the allowance for doubtful accounts, income taxes, inventory, goodwill and intangible assets, contingencies and revenue recognition. We base our estimates and assumptions on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following represent what management believes are the critical accounting policies most affected by significant management estimates and judgments. Management has discussed these critical accounting policies, the basis for their underlying assumptions and estimates and the nature of our related disclosures herein with the Audit Committee of the Board of Directors.

Allowance for doubtful accounts. Our estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, we evaluate specific accounts where we have information that the customer may have an inability to meet its financial obligations (for example, bankruptcy). In these cases, we use our judgment, based on the best available facts and circumstances, and record a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a reserve is established for all customers based on a range of percentages

applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change (for example, we experience higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligation to us), our estimates of the recoverability of amounts due to us could be reduced.

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We believe that our allowance for doubtful accounts is a critical accounting estimate because it is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact recognizing additional allowance for doubtful accounts may be material to the assets reported on our balance sheet.

Income taxes. At December 31, 2002, the unadjusted net book value of our deferred tax assets totaled approximately \$18.7 million, which was principally comprised of net operating loss carryforwards of \$14.2 million and for credits of \$6.1 million. The provisions of SFAS No. 109 "Accounting for Income Taxes", require a valuation allowance when, based upon currently available information and other factors, it is more likely than not that all or a portion of the deferred tax asset will not be realized. SFAS No. 109 provides that an important factor in determining whether a deferred tax asset will be realized is whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as cumulative losses in recent years. The existence of cumulative losses in recent years is an item of negative evidence that is particularly difficult to overcome. During our 2002 fourth quarter-end, we recorded a valuation allowance of approximately \$12.9 million against our net deferred tax assets. We intend to maintain a valuation allowance until sufficient evidence exists to support its reversal. Also, until an appropriate level of profitability is reached, we do not expect to recognize any domestic tax benefits in future periods.

We believe that our determination to record a valuation allowance to reduce our deferred tax assets is a critical accounting estimate because it is based on an estimate of future taxable income in the United States, which is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact of recording a valuation allowance may be material to the assets reported on our balance sheet. The determination of our income tax provision is complex due to operations in numerous tax jurisdictions outside the United States, which are subject to certain risks, which ordinarily would not be expected in the United States. Tax regimes in certain jurisdictions are subject to significant changes, which may be applied on a retroactive basis. If this were to occur, our tax expense could be materially different than the amounts reported. Furthermore, as explained in the preceding paragraph, in determining the valuation allowance related to deferred tax assets, the Company adopts the liability method as required by SFAS No. 109, "Accounting for Income Taxes". This method requires that we establish valuation allowance if, based on the weight of available evidence, in the Company's judgment it is more likely than not that the deferred tax assets may not be realized.

Inventory. Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method. Reserves for slow moving and obsolete inventories are provided based on historical experience and current product demand. Our reserve for slow moving and obsolete inventory was \$1.9 million and \$1.6 million at December 31, 2002 and 2001, respectively. We evaluate the adequacy of these reserves quarterly. Our determination relating to the allowance for inventory obsolescence is subject to change because it is based on management's current estimates of required reserves and potential adjustments. We believe that the allowance for inventory obsolescence is a critical accounting estimate because it is susceptible to change and dependent upon events that are remote in time and may or may not occur, and because the impact of recognizing additional obsolescence reserves may be material to the assets reported on our balance sheet and results of operations.

Goodwill and intangible assets. The Company has applied Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" in its allocation of the purchase price of DTM Corporation (DTM) and RPC Ltd. (RPC). The annual impairment testing required by SFAS No. 142, "Goodwill and Other Intangible Assets" requires the Company to use its judgment and could require the Company to write-down the carrying value of its goodwill and other intangible assets in future periods. SFAS No. 142 requires companies to allocate their goodwill to identifiable reporting units, which are then tested for impairment using a two-step process detailed in the statement. The first step requires comparing the fair value of each reporting unit with its carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is not necessary and there are no impairment issues. If that fair value does not exceed that carrying amount, companies must perform the second step that requires an allocation of the fair value of the reporting unit to all

assets and liabilities of that unit as if the reporting unit had been acquired in a purchase business combination and the fair value of the reporting unit was the purchase price. The goodwill resulting from that purchase price allocation is then compared to its carrying amount with any excess recorded as an impairment charge.

Upon implementation of SFAS No. 142 in January 2002 and again in the fourth quarter of 2002, the Company concluded that the fair value of the Company's reporting units exceeded their carrying value and accordingly, as of that date, there were no goodwill impairment issues. The Company is required to perform a valuation of its reporting unit annually, or upon significant changes in the Company's business environment.

We believe that our determination not to recognize an impairment of goodwill is a critical accounting estimate because it is susceptible to change, dependent upon estimates of the fair value of our reporting units, and because the impact of recognizing an impairment may be material to the assets reported on our balance sheet and our results of operations.

Contingencies. We account for contingencies in accordance with SFAS No. 5, "Accounting for Contingencies". SFAS No. 5 requires that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated (see Note 20 of the Notes to the Consolidated Financial Statements).

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Accounting for contingencies such as legal and income tax matters requires us to use our judgment. At this time our contingencies are not estimable and have not been recorded, however, management believes the ultimate outcome of these actions will not have a material effect on our consolidated financial position, results of operations or cash flows.

Revenue Recognition. Revenues from the sale of systems and related products are recognized upon shipment, provided that both title and risk of loss have passed to the customer and collection is reasonably assured. Some sales transactions are bundled and include equipment, software license, warranty, training and installation. The Company allocates and records revenue in these transactions based on vendor specific objective evidence that has been accumulated through historic operations. The process of allocating the revenue involves some management judgments. Revenues from services are recognized at the time of performance. We provide end users with maintenance under a warranty agreement for up to one year and defer a portion of the revenues at the time of sale based on the objective evidence for the fair value of these services. After the initial warranty period, we offer these customers optional maintenance contracts; revenue related to these contracts is deferred and recognized ratably over the period of the contract. Our warranty costs were \$4.6 million, \$4.2 million and \$3.8 million, for the years ended December 31, 2002, 2001 and 2000, respectively. The Company's systems are sold with software products that are integral to the operation of the systems. These software products are not sold separately.

Certain of the Company's sales are made through a sales agent to customers where substantial uncertainty exists with respect to collection of the sales price. The substantial uncertainty is generally a result of the absence of a history of doing business with the customer and with respect to the uncertain political environment in the country in which the customer does business. For these sales, the Company records revenues based on the cost recovery method, which requires that the sales proceeds received are first applied to the carrying amount of the asset sold until the carrying amount has been recovered, thereafter, all proceeds are credited to sales.

Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 will not have a material impact on our results of operations or financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," which amended SFAS No. 123,

"Accounting for Stock-Based Compensation." The new standard provides alternative methods of transition for a voluntary change to the fair market value based method for accounting for stock-based employee compensation. Additionally, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. In compliance with SFAS No. 148, we have elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by Accounting Principles Board ("APB") Opinion No. 25 and has made the applicable disclosures in Note 15 of the Notes to the Consolidated Financial Statements.

In May 2003, the FASB issued SFAS No. 150 (SFAS No. 150), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards on the classification and measurement of financial instruments with characteristics of both liabilities and equity. SFAS No. 150 will become effective for financial instruments entered into or modified after May 31, 2003. We are in the process of assessing the effect of SFAS No. 150 and does not expect the implementation of the pronouncement to have a material effect on its financial condition or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing the guarantee. We will apply FIN 45 to guarantees, if any, issued after December 31, 2002. We have not yet evaluated the financial statement impact of the adoption of FIN 45. FIN 45 also requires guarantors to disclose certain information for guarantees, including product warranties, outstanding at December 31, 2002.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires an investor with a majority of the variable interests in a variable interest entity to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A variable interest entity is an entity in which the equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from other parties. We do not expect to identify any variable interest entities that must be consolidated.

Results of Operations

The following table sets forth the percentage relationship of certain items from our Statements of Operations to total sales:

	Percentage of Total Sales Years Ended December 31,		
	2002	2001	2000
Sales:			
Products	69.9%	71.2%	73.1%
Services	30.1%	28.8%	26.9%
Total sales	100.0%	100.0%	100.0%
Cost of sales:			
Products	37.4%	35.6%	32.0%
Services	22.4%	21.0%	19.9%
Total cost of sales	59.8%	56.6%	51.9%
Gross profit	40.2%	43.4%	48.2%
Selling, general and administrative expenses	41.7%	36.1%	29.9%
Research and development expenses	13.3%	9.3%	7.2%
Severance and other restructuring costs	3.8%	---	---
(Loss) income from operations	(18.6)%	(2.0)%	11.1%
Interest and other (expense) income, net	(2.6)%	(0.9)%	0.1%
Gain on arbitration settlement	15.9%	---	---
Provision for (benefit from) income taxes	7.7%	(0.8)%	3.9%
Net (loss) income	(12.9)%	(2.1)%	7.2%

The following table sets forth, for the periods indicated, total sales

attributable to each of the Company's major products and services groups, and those sales as a percentage of total sales:

	Years Ended December 31,		
	2002	2001	2000
(in thousands, except for percentages)			
Products:			
SLA systems and related equipment	\$ 29,186	\$ 35,223	\$ 44,803
SLS systems and related equipment	13,362	8,651	--
Solid object printers	1,931	5,261	6,520
Materials	31,619	30,633	25,267
Other	4,941	4,790	3,267
Total products	81,039	84,558	79,857
Services:			
Maintenance	33,038	32,239	26,079
Other	1,884	1,943	3,350
Total services	34,922	34,182	29,429
Total sales	\$ 115,961	\$ 118,740	\$ 109,286
Products:			
SLA systems and related equipment	25.2%	29.7%	41.0%
SLS systems and related equipment	11.5%	7.3%	--%
Solid object printers	1.7%	4.4%	6.0%
Material	27.3%	25.8%	23.1%
Other	4.2%	4.0%	3.0%
Total products	70.0%	71.2%	73.1%
Services:			
Maintenance	28.5%	27.2%	23.9%
Other	1.6%	1.6%	3.0%
Total services	30.1%	28.8%	26.9%
Total sales	100.0%	100.0%	100.0%

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2002 Compared to 2001

Sales. Sales in 2002 were \$116.0 million, a decrease of 2.3% from the \$118.7 million recorded in 2001. Sales for 2001 reflect the consolidated results of DTM as of August 17, 2001. The SLS product line of machines and materials resulting from the DTM acquisition contributed \$27.9 million and \$13.8 million in revenue in 2002 and 2001, respectively.

Product sales of \$81.0 million were recorded in 2002, a decrease of 4.2% compared to \$84.6 million for 2001. Without the inclusion of the SLS product line (which includes materials from the SLS product line), product sales of \$53.1 million would have been recorded for 2002, compared to \$70.8 million for 2001. This decrease in product sales is due primarily to the decrease in our sales of ThermoJet solid object printers and related equipment of \$3.3 million or 63.3%, a decrease in sales of our SLA systems and related equipment of \$6.0 million or 17.1% and a decrease in materials revenue of \$8.5 million or 33.4%.

In 2002, we sold a total of 139 SLA systems compared to 2001 in which we sold a total of 190 SLA systems. In addition, we sold 44 SLS systems in 2002, compared to 39 SLS systems in 2001. SLS unit sales from 2001 reflect the consolidated results of DTM as of August 17, 2001. The reduction in the number of units sold is a result of the economic slowdown worldwide during most of 2002.

Without the inclusion of \$14.6 million and \$5.1 million in materials revenue from the SLS product line in 2002 and 2001, respectively, materials revenue of \$17.0 million were recorded in 2002, a 33.4% decrease from the \$25.5 million recorded in 2001. The decrease in materials revenue primarily relates to lower resin volumes as we continue to solicit customers to transition from Vantico material to our manufactured material. We have recovered in excess of 70% of the market share lost from the termination of our sales agreement with Vantico through December 31, 2002.

System orders and resultant sales may fluctuate on a yearly basis as a result of a number of other factors, including world economic conditions, fluctuations in foreign currency exchange rates, acceptance of new products and the timing of product shipments. Due to the price of certain systems and the overall low unit volumes, the acceleration or delay of shipments of a small number of higher-end SLA systems from one period to another can significantly affect the results of operations for the periods involved.

Service sales in 2002 totaled \$34.9 million, an increase of 2.2% from \$34.2 million in 2001. The increase primarily reflects an increase in maintenance contract revenue, coupled with the consolidation of service revenue from the DTM acquisition. The increase in maintenance contract revenue reflects a continued emphasis of providing a multitude of maintenance contract options to our customers and enhanced selling efforts in this area, coupled with an increase in the installed base of machines.

Sales for our U.S. operating segment for 2002 and 2001 were \$57.4 million and \$61.0 million, respectively, a decrease of 6.1%. Sales for our European operating segment were \$44.5 million, a slight increase from the \$44.3 million recorded in 2001. Sales for our Asia/Pacific operating segment for 2002 were \$14.1 million, an increase of 5.2% from the \$13.4 million recorded in 2001 primarily due to an increase in service revenues. As noted above, the economic slowdown worldwide has impacted our overall sales for 2002. This was partially offset by the addition of DTM revenue for four months in 2001 and twelve months in 2002.

Cost of sales. Cost of sales increased to \$69.3 million or 59.8% of sales in 2002 from \$67.2 million or 56.6% of sales in 2001. Without the inclusion of the SLS product line, cost of sales were \$55.7 million or 63.3% of sales in 2002 and \$59.8 million or 56.9% in 2001.

Product cost of sales as a percentage of product sales increased to 53.6% in 2002 from 50.0% in 2001. Without the inclusion of the SLS product line, product cost of sales as a percentage of product sales was 56.0% in 2002 and 49.2% in 2001. The increase as a percent of product sales in 2002 compared to 2001 is due primarily to a shift in the sales mix from higher-end SLA systems to our smaller systems, which have lower margins. The lower end systems appeal to a broader base of customers and we anticipate that the lost margin will be recovered over time by the increased sales volume.

Service cost of sales as a percentage of service sales increased to 74.3% in fiscal year 2002 from 73.0% in 2001. The increase is due to an increase in fixed costs of the Company's Education Centers, centers at which we train customers to use our products, and Technology Centers, attributable to the addition of the SLS product line.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") totaled \$48.3 million in 2002 and \$42.8 million for 2001. The increase primarily reflects additional expenses related to bad debt expense, directors and officers insurance, group medical benefits and professional fees. In addition, SG&A expenses for DTM are included for the full year in 2002 and four months in 2001 (from the acquisition date). These expenses are partially offset by head count related cost savings net of employee severance.

Research and development expenses. Research and development expenses in 2002 increased to \$15.4 million or 13.3% of revenue compared to \$11.0 million or 9.3% of revenue in 2001. The increase in research and development expenses is primarily due to development costs related to the InVision Si2 3-D printer and the decision to maintain our facility in Austin, Texas acquired from DTM. Also included in 2002 was approximately \$1.5 million of amortization related to technology acquired in the DTM acquisition. Due to our recent decrease in our workforce, including closing the facility in Austin, we anticipate future research and development expenses to be more in line with historical levels related to revenues.

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(Loss) income from operations. Operating loss for 2002 was \$21.4 million compared to \$2.3 million in 2001 due to lower gross profits and higher operating expenses in 2002.

Gain on arbitration settlement. Gain on arbitration settlement reflects an \$18.5 million gain associated with the Vantico arbitration which was recorded in the first quarter of 2002 (see Note 21 to financial statements).

Interest and other (expense) income, net. Interest and other expense, net for 2002 was \$3.0 million compared to interest and other expense, net of \$1.0 million in 2001. The increased expense in 2002 reflects a higher average debt balance and our higher average cost of capital during 2002.

Provision for (benefit from) income taxes. For 2002, our tax provision was \$8.9 million or (149.6)% of the pre-tax loss, compared to a tax benefit of \$1.0 million or 29.6% of the pre-tax loss in 2001. The 2002 tax provision included an increase of the valuation allowance of deferred tax assets in the amount of \$12.9 million or (217.5)% of the pre-tax loss. As of December 31, 2002, the Company has a net deferred tax asset, before the valuation allowance adjustment, in the total amount of \$18.7 million. See Note 18 of the Notes to Consolidated Financial Statements.

2001 Compared to 2000

Sales. Sales in 2001 were \$118.7 million, an increase of 8.6% from the \$109.3 million recorded in 2000. Sales for 2001 reflect the consolidated results of DTM as of August 17, 2001. The SLS product line of machines and materials contributed \$13.8 million in revenue in 2001.

Product sales of \$84.6 million were recorded in 2001, an increase of 5.9% compared to \$79.9 million for 2000. The increase in product revenue is primarily due to the consolidation of the results of DTM, with sales from the SLS product line of \$13.8 million. Without the consolidation of DTM, product sales of \$70.8 million would have been recorded for 2001, compared to \$79.9 million for 2000. This decrease in product sales is due primarily to the decrease in sales of SLA systems and related equipment of \$9.6 million or 21.4%.

The decrease in machine sales primarily resulted from decreased sales of the higher-end SLA systems, especially the SLA 7000 system, primarily due to a general economic decline in higher dollar capital equipment purchases by customers. In 2001, we sold a total of 37 SLA 7000 systems compared to 57 in 2000. Although sales of our higher-end SLA systems in 2001 were below the prior year, sales of our newly introduced Viper si2 SLA system exceeded expectations, with 71 units sold in 2001. The Viper si2 SLA system became generally available on July 12, 2001.

Excluding the consolidation of \$5.1 million in materials revenue from DTM, materials revenue of \$25.5 million were recorded in 2001, a slight decrease from the \$25.5 million recorded in 2000. The decrease in material revenue primarily reflects the sale of fewer large frame SLA units. We believe that the termination of our agreements with Vantico, coupled with our acquisition of RPC, may have also impacted materials revenue.

System orders and resultant sales may fluctuate on a yearly basis as a result of a number of other factors, including world economic conditions, fluctuations in foreign currency exchange rates, acceptance of new products and the timing of product shipments. Due to the price of certain systems and the overall low unit volumes, the acceleration or delay of shipments of a small number of higher-end SLA systems from one period to another can significantly affect the results of operations for the periods involved.

Service sales in 2001 totaled \$34.2 million, an increase of 16.2% from \$29.4 million in 2000. The increase primarily reflects an increase in maintenance contract revenue, coupled with the consolidation of service revenue from the DTM acquisition. The increase in maintenance contract revenue reflects a continued emphasis of providing a multitude of maintenance contract options to our customers and enhanced selling efforts in this area, coupled with an increase in the installed base of machines.

Cost of sales. Cost of sales increased to \$67.2 million or 56.6% of sales in 2001 from \$56.7 million or 51.9% of sales in 2000. Excluding the results of DTM, cost of sales were \$59.9 million or 50.5% of sales in 2001.

Product cost of sales as a percentage of product sales increased to 50.0% in 2001 from 43.8% in 2000. Without the consolidation of DTM, product cost of sales as a percentage of product sales was 48.5% in 2001. The increase as a percent of product sales in 2001 compared to 2000 is due primarily to a shift in the sales mix from higher-end SLA systems to our smaller systems.

Service cost of sales as a percentage of service sales decreased to 73.0% in fiscal year 2001 from 73.8% in 2000. The decrease is due to a change in the mix of service sales from time and materials and other service revenues to maintenance contract revenues in 2001.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") totaled \$42.8 million in 2001 and \$32.7 million for 2000. The increase primarily reflects expenses from the DTM acquisition, acquisition related amortization costs, legal fees related to the Vantico arbitration, and bad debt write-offs in the fourth quarter of 2001. Additionally, the first six months of 2001 reflect an overall increase in

personnel expenses and other costs as we continued to build infrastructure to support anticipated revenue growth.

Research and development expenses. Research and development expenses in 2001 increased to \$11.0 million compared to \$7.8 million in 2000. Excluding the results of DTM, research and development expenses were \$9.3 million in 2001, or 7.8% of sales compared with \$7.8 million in 2000, or 7.2% of sales. The increase in research and development expenses is primarily due to development costs related to the InVision Si2 3-D printer and the initial decision to maintain our facility in Austin, Texas. Due to our recent decrease in our workforce in 2001, we anticipate future research and development expenses to be more in line with historical levels related to revenues.

(Loss) income from operations. Operating loss for 2001 was \$2.3 million compared to operating income of \$12.1 million in 2000, due to reductions in gross profit and higher operating expenses in 2001 compared to 2000.

Interest and other (expense) income, net. Interest and other expense, net for 2001 was \$1.0 million compared to interest and other income, net of \$.1 million in 2000. The increased expense in 2001 reflects \$1.0 million of interest expense and amortization of loan costs related to the new U.S. Bank term loan and revolving line of credit.

Provision for (benefit from) income taxes. For 2001, our tax provision was a benefit of \$1.0 million or 29.6% of the pre-tax loss, compared to a tax charge of \$4.3 million or 35.4% of the pre-tax income in 2000.

Foreign Operations

International sales, primarily from Europe, accounted for 50.6%, 48.6% and 46.2%, of total sales in 2002, 2001 and 2000, respectively. For information with respect to allocation of sales among our foreign operations, see Note 19 of Notes to Consolidated Financial Statements.

Related Parties

At December 31, 2002, the Company has remaining notes receivable totaling \$59,000 from certain executive officers and employees of the Company pursuant to the 1996 Stock Incentive Plan. The original amount of the loans was \$670,000, of which \$40,000 was forgiven in 2000, \$120,000 was canceled (and shares returned and canceled) in 1999, and \$185,000, \$86,000, \$120,000 and \$60,000 were repaid in 2002, 2001, 2000 and 1998, respectively. The loans were used to purchase shares of the Company's common stock at the fair market value on the date of purchase and upon exercise of stock options. Of the total notes receivable, \$41,000 may be forgiven, in part or whole, if certain profitability targets are met. The notes bear interest at a rate of 6% per annum and mature in the years 2003 and 2004. The notes receivable are shown on the balance sheet as a reduction of stockholders' equity.

For 2001, in connection with his services as our employee, our Board of Directors granted to Mr. Gary J. Sbona, a 3D Systems employee and Chairman and Chief Executive Officer of Regent Pacific Management Corporation, options to purchase 350,000 shares of our common stock, at an exercise price of \$12.43 per share. We previously granted Mr. Sbona options to purchase 350,000 shares of our common stock in 2000 and 1999 at exercise prices of \$17.39 and \$6.00 per share, respectively. The exercise prices of the 350,000 options granted in 2001, 2000 and 1999 exceeded the fair market value of our common stock at the dates of grant. All options generally vest over a three-year period or sooner subject to certain conditions. In 2000, 116,666 options were exercised at a per share price of \$16.00.

We are currently involved in litigation with Regent Pacific, which provided management services to us from September 1999 through September 2002. The litigation involves a disagreement with regard to non-solicitation claims related to two Regent contractors subsequently employed by us. We are involved in a dispute with Regent with respect to the termination provisions in the option certificates and agreements pertaining to 166,666 non-qualified stock options issued to Mr. Sbona in 1999 and to the 350,000 options issued to Mr. Sbona in 2001.

In December 2001, we sold \$10.0 million aggregate principal amount of 7% convertible subordinated debentures. Messrs. G. Walter Lowenbaum and Jim Keever purchased an aggregate of \$1.0 million of the debentures. The debentures are immediately convertible at the option of the holder at a conversion price of \$12.00 per share. Mr. Loewenbaum is the Chairman of our Board of Directors and Mr. Keever serves as a member on our Board of Directors.

On May 5, 2003, we sold 2,634,016 shares of our Series B Convertible Preferred Stock, at a price of \$6.00 per share, for aggregate consideration of \$15.8 million. The preferred stock accrues dividends at 8% per share and is convertible at any time into

approximately 2,634,016 shares of common stock. The stock is redeemable at the Company's option after the third anniversary date, The Company must redeem any shares of preferred stock outstanding on the tenth anniversary date. The redemption price is \$6.00 per share plus accrued and unpaid dividends. Messrs. Loewenbaum, Service and Hull, our Chairman of the Board, Chief Executive Officer and Chief Technology Officer, respectively, purchased an aggregate of \$1,450,000 of the preferred shares. Additionally, Clark Partners I, L.P., a New York limited partnership, purchased \$5.0 million of the preferred shares. Kevin Moore, a member of our Board of Directors, is the president of the general partner of Clark Partners I, L.P. In connection with the offering, Houlihan Lokey Howard & Zukin rendered its opinion that the terms of the offering were fair to the Company from a financial point of view. A special committee of the Board of Directors, composed entirely of disinterested independent directors, approved the offer and sale of the preferred shares and recommended the transaction to the Board of Directors. The Board also approved the transaction, with interested Board members not participating in the vote.

In June 2000, we entered into a distribution agreement for ThermoJet printers with 3D Solid Solutions, which we refer to as 3DSS, a partnership in which Mr. Loewenbaum, the Chairman of our Board of Directors, is a limited partner. As of December 31, 2002, Solid Imaging Technologies, LLC, of which Mr. Loewenbaum is the sole member, was the general partner of 3DSS. In 2002, 3DSS paid us approximately \$84,000 for the purchase of products and services.

Brian Service has been retained as Chief Executive Officer. Mr. Service previously provided consulting services under an arrangement with Regent Pacific Management Corporation. From September 10, 2002 (the date of the termination of the Regent Agreement), through October 15, 2002, Mr. Service was engaged on an interim consulting basis for which he was paid \$79,999. Effective October 15, 2002, Mr. Service was employed by us pursuant to an employment agreement under which he has agreed to serve as Chief Executive Officer until at least December 2003. Mr. Service is being paid \$17,809 on a bi-weekly basis under this agreement, and has been awarded fully vested options, with a term of five years, to purchase 350,000 shares of our common stock at a price of \$5.78 (the closing price on October 15, 2002).

On November 18, 2002, the Company entered into a consulting agreement with Brian K. Service, Inc. ("BKSI"), a corporation in which the Company's Chief Executive Officer is a stockholder, officer, and director. Pursuant to this agreement the Company would pay to BKSI an amount up to \$310,000 for an 11-month period for the provision of the services of qualified consultants to the Company. Under this agreement, the Company paid \$71,000 through December 31, 2002.

From October 1999 until November 2002, G. Walter Loewenbaum II was an employee of the Company, with a salary of \$180,000 per annum. He resigned from this employment in November 2002. At the regularly scheduled Board meeting on November 18, 2002, the Board unanimously voted to grant to Mr. Loewenbaum compensation of \$180,000 per annum for performing the duties of Chairman of the Board of the Company.

Liquidity and Capital Resources

	As of and for the Years Ended December 31		
	2002	2001	2000
	(in thousands)		
Cash and cash equivalents	\$ 2,279	\$ 5,948	\$ 18,999
Working (deficit) capital	(8,608)	16,008	44,275
Cash provided by operating activities	1,314	6,649	5,126
Cash used for investing activities	(11,015)	(58,088)	(2,644)
Cash provided by financing activities	5,843	40,907	4,159

GOING CONCERN

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred operating losses totaling \$21.4 million and \$2.3 million for the years ended December 31, 2002 and 2001, respectively, and has an accumulated deficit of \$21.4 million at December 31, 2002.

These factors raise substantial doubt about the Company's ability to continue as a going concern. As of June 13, 2003, the Company had cash balances of \$7.7 million, of which \$1.2 million was restricted, and \$0.6 million was available under a bank line of credit available to meet current obligations. Further, the Company is obligated under its existing line of credit to have a commitment

letter from a substitute lender by September 30, 2003. Failure to obtain a commitment letter from an acceptable lender will cause the amount under the line of credit to become immediately due. Management has obtained a proposal from Congress Financial, a subsidiary of Wachovia, to provide a secured revolving credit facility of up to \$20.0 million. The proposal is contingent on Congress Financial completing due diligence to its satisfaction and other conditions. We cannot assure you that over the next twelve months or thereafter we will generate funds from operations or that capital will be available from external sources such as debt or equity financings or other potential sources to fund future operating costs, debt service obligations and capital requirements. Our operations are not currently profitable. Our ability to continue operations is uncertain if we are not successful in obtaining outside funding. Management plans to continue raising additional capital to fund operations. The lack

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of additional capital resulting from the inability to generate cash flow or raise financing from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Further, we cannot assure you that any necessary funds, if available, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Net cash provided by operating activities in 2002 of \$1.3 million primarily results from the decrease in the accounts receivable balance of \$11.5 million and the decrease of inventories of \$7.1 million partially offset by a net loss of \$14.9 million which included a non-cash gain from the Vantico settlement of \$20.3 million, a non-cash charge of \$12.9 million resulting from an increase in the valuation allowance for deferred income taxes and non-cash charges for depreciation and amortization of \$9.9 million. Furthermore, cash provided by operations was decreased due to a decrease in accounts payable of \$2.6 million and other liabilities of \$1.1 million.

Net cash used for investing activities in 2002 of \$11.0 million primarily relates to additions to licenses and patents of \$4.7 million related to legal defense and new patent filings, additions to property and equipment of \$3.2 million for machinery and equipment, the scheduled payments for the OptoForm acquisition of \$1.2 million, and \$2.0 million in payments for the RPC acquisition.

Net cash provided by financing activities in 2002 of \$5.8 million primarily reflects \$12.5 million in proceeds from the sale of stock and \$44.6 million in additional borrowings partially offset by \$52.5 million in debt repayment.

On August 20, 1996, we completed a \$4.9 million variable rate industrial development bond financing of our Colorado facility. Interest on the bonds is payable monthly (the interest rate at December 31, 2002 was 1.31%). Principal payments are payable in semi-annual installments through August 2016. The bonds are collateralized by an irrevocable letter of credit issued by Wells Fargo Bank, N.A. that is further collateralized by a standby letter of credit issued by U.S. Bank in the amount of \$1.2 million. At December 31, 2002, a total of \$4.2 million was outstanding under the bond. The terms of the letter of credit require us to maintain specific levels of minimum tangible net worth and fixed charge coverage ratio. We were not in compliance with these covenants at December 31, 2002.

On March 27, 2003, Wells Fargo sent a letter to the Company stating that it was in default of the fixed charge coverage ratio and minimum tangible net worth covenants of the reimbursement agreement relating to the letter of credit. The bank provided the Company until April 26, 2003, to cure these defaults.

On May 2, 2003, Wells Fargo drew down a letter of credit in the amount \$1.2 million which was held as partial security under the reimbursement agreement relating to the letter of credit underlying the bonds and placed the cash in a restricted account. The Company obtained a waiver for the defaults from the Wells Fargo Bank in a letter dated June 16, 2003, provided that the Company meet certain terms and conditions. The Company must remain in compliance with all other provisions of the reimbursement agreement for this letter of credit. In addition, on or before September 30, 2003, the Company must provide Wells Fargo with evidence of a proposal from another bank to replace this letter of credit, or should a replacement letter of credit not be obtained on or before December 31, 2003, the Company will agree to retire \$1.2 million of the bonds using the restricted cash. Wells Fargo has accepted the proposal letter from Congress Financial as satisfying the requirement in the waiver agreement.

On August 17, 2001, the Company entered into a loan agreement with U.S. Bank totaling \$41.5 million, in order to finance the acquisition of DTM. The financing arrangement consisted of a \$26.5 million three-year revolving credit facility and a \$15 million 66-month commercial term loan. At December 31, 2002, a total of \$2.4 million was outstanding under the revolving credit facility and \$10.4 million was outstanding under the term loan. The interest rate at December 31, 2002, for the revolving credit facility and term loan was 7.5% and 6.42%, respectively. The interest rate is computed as either: (1) the prime rate plus a margin ranging from 0.25% to 4.0%, or (2) the 90-day adjusted LIBOR plus a margin ranging from 2.0% to 5.75%. Pursuant to the terms of the agreement, U.S. Bank has received a first priority security interest in our accounts receivable, inventories, equipment and general intangible assets. The Company paid \$1.2 million of loan origination fees and costs to US Bank during 2001 in connection with this loan.

On May 1, 2003 the Company entered into "Waiver Agreement Number Two" with U.S. Bank whereby U.S. Bank waived all financial covenant violations at December 31, 2002 and March 31, 2003. The events of default caused by the Company's failure to timely submit audited financial statements and failure to make the March 31, 2003 principal payment of \$5.0 million were also waived. The agreement requires the Company to obtain additional equity investments of at least \$9.6 million; to pay off the balance on the term loan of \$9.6 million by May 5, 2003; to increase the applicable interest rate to prime plus 5.25%; and to pay a \$150,000 waiver fee and all related costs of drafting the agreement. US Bank has also agreed to waive the Company's compliance with each financial covenant in the loan agreement through September 30, 2003. Provided the Company obtains a commitment letter from a qualified lending institution by September 30, 2003, to refinance all of the outstanding obligations with US Bank, the waiver will be extended to the earlier of December 31, 2003, or the expiration date of the commitment letter. Through the date of this filing the

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Company has complied with all aspects of Waiver Agreement Number Two including the receipt of equity investments of \$ 9.6 million and the \$9.6 million principal repayment of the term loan.

On May 5, 2003, we sold 2,634,016 shares of our Series B Convertible Preferred Stock at a price of \$6.00 per share for aggregate consideration of \$15.8 million. The preferred stock accrues dividends at 8% per share and is convertible at any time into approximately 2,634,016 shares of common stock. The stock is redeemable at the Company's option at any time after the third anniversary date. The Company must redeem any shares of preferred stock outstanding on the tenth anniversary date. The redemption price is equal to \$6.00 per share plus accrued and unpaid dividends. Net proceeds to us from these transactions were \$15.3 million.

On May 7, 2002, we repurchased 125,000 shares of our common stock from Vantico. On that same date we sold 1,125,000 shares of our common stock to accredited investors in a private placement transaction. These shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. Net proceeds to us from these transactions were \$12.5 million.

We lease certain facilities under non-cancelable operating leases expiring through December 2006. The leases are generally on a net-rent basis, whereby we pay taxes, maintenance and insurance. Leases that expire are expected to be renewed or replaced by leases on other properties. Rental expense for the years ended December 31, 2002, 2001 and 2000, aggregated \$2.8 million, \$2.0 million and \$1.9 million, respectively.

The future contractual payments are as follows:

Contractual Obligations	2003	2004	2005	2006	2007	Later Years	Total
Line of credit	\$ 2,450	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 2,450
Term loan	10,350	---	---	---	---	---	10,350
Industrial development bond	150	165	180	200	220	3,325	4,240
Subordinated debt	---	---	---	10,000	---	---	10,000
Operating leases	2,949	2,599	1,723	1,518	738	---	9,527
Total Contractual Obligations	\$ 15,899	\$ 2,764	\$ 1,903	\$ 11,718	\$ 958	\$ 3,325	\$ 36,567

In addition to the foregoing contractual commitments in connection with the acquisition of RPC, the Company has guaranteed the value of an aggregate of 264,900 shares of common stock underlying warrants issued to the former RPC shareholders. If the fair market value of our common stock is less than \$25.27 on September 19, 2003, then each warrant holder has the right to receive, in exchange for the warrant, an amount equal to CHF 8.25 (approximately \$6.30 at June 20, 2003) multiplied by the total number of shares of common stock then underlying the warrant. The value of this commitment at the acquisition date was \$1.3 million and was included in the purchase price of RPC (see Note 10 of Notes to Consolidated Financial Statements). Our aggregate potential liability at December 31, 2002 was approximately \$1.6 million. Payment in cash is due within 30 days of exercise of the guaranty right by the warrant holder.

In order to preserve cash, we have been required to reduce expenditures for capital projects, research and development, and in our corporate infrastructure, any of which may have a material adverse effect on our future operations. Further reductions in our cash balances could require us to make more significant cuts in our operations, which would have a material adverse impact on our future operations. We cannot assure you that we can achieve adequate savings from these reductions over a short enough period of time in order to allow us to continue as a going concern.

In the event we are unable to generate cash flow and achieve our estimated cost savings, we will need to aggressively seek additional debt or equity financing and other strategic alternatives. However, recent operating losses, our declining cash balances, our historical stock performance, the ongoing inquiries into certain matters relating to our revenue recognition and the general economic downturn may make it difficult for us to attract equity investments or debt financing or strategic partners on terms that are deemed favorable to us. If our financial condition continues to worsen and we are unable to attract equity or debt financing or other strategic transactions, we could be forced to consider steps that would protect our assets against our creditors.

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CAUTIONARY STATEMENTS AND RISK FACTORS

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial 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.

Risks Arising from Recent Events

Our independent auditors' report expresses doubt about our ability to continue as a going concern.

At December 31, 2002, our independent auditors' report, dated June 20, 2003, includes an explanatory paragraph relating to substantial doubt as to our ability to continue as a going concern. We have experienced significant operating losses in each quarter of fiscal 2002 and in preceding years. Our cash and short-term investment balances have continued to decline since December 31, 2002, and we expect to experience further declining balances. We have failed to meet our financial covenants under our bank agreements and our reimbursement agreement relating to our municipal bond financing. US Bank has waived our compliance with the financial covenants in our loan agreement with them through September 30, 2003 and subject to obtaining a commitment letter from a qualified lending institution by September 30, 2003 to refinance all of our outstanding obligations with US Bank, the waiver will be extended to the earlier of December 31, 2003, or the expiration date of the commitment letter. Wells Fargo has waived compliance with certain covenants, provided that we remain in compliance with all other provisions of the reimbursement agreement. The waiver extends through December 31, 2003 provided that if we do not obtain a letter of credit to replace Wells Fargo on or before December 31, 2003, we agree to retire \$1.2 of the bonds through the use of restricted cash. If we are unable to obtain a commitment letter as required under the US Bank waiver, we will need to raise additional capital through debt or equity financing to pay off the bank loan or we will be in default.

We are primarily reliant on cash generated from operations to meet our cash requirements. In order to preserve cash, we have been required to reduce expenditures for capital projects, research and development, and in our corporate infrastructure, any of which may have a material adverse affect on our future operations. Further reductions in our cash balances could require us to make more significant reductions in our operations, which would have a material

adverse impact on our future operations. We cannot assure you that we can generate sufficient cash from operations and realize our anticipated cost savings in order to allow us to continue as a going concern. In the event we are unable to generate cash flow and achieve our estimated cost savings, or unable to enter into a commitment letter to refinance the US Bank loan by September 30, 2003, we will need to aggressively seek additional debt or equity financing and other strategic alternatives. However, recent operating losses, our declining cash balances, our historical stock performance, the ongoing inquiries into certain matters relating to our revenue recognition and the general economic downturn may make it difficult for us to attract equity investments or debt financing or strategic partners on terms that are deemed favorable to us or at all. If we are unable to obtain financing on terms acceptable to us, or at all, we will not be able to accomplish any or all of our initiatives and could be forced to consider steps that would protect our assets against our creditors.

The inquiry initiated by SEC may lead to charges or penalties and may adversely affect our business.

If any government inquiry or other investigation leads to charges against us, we likely will be harmed by negative publicity, the costs of litigation, the diversion of management time, and other negative effects, even if we ultimately prevail. The SEC has inquired into matters pertaining to our revenue recognition practices. Our Audit Committee has met, and cooperated fully, with the SEC. To date, the Company has not been notified that the SEC has initiated a formal investigation. This matter is pending and continues to require management attention and resources. Any adverse finding by the SEC may lead to significant fines and penalties and limitations on our activities and may harm our relationships with existing customers and impair our ability to attract new customers. The filing of our restated financial statements will not necessarily resolve the SEC inquiry.

Our common stock is trading on The Nasdaq National Market under an exception from the continued listing requirements.

If we fail to file our first quarter 10-Q by July 14, 2003, or fail to timely file any other periodic report due by December 31, 2003, Nasdaq will delist our common stock and, as a consequence, fewer investors, especially institutional investors, will be willing to invest in our company, our stock price will decline, and it will be difficult to raise money on terms acceptable to us, or at all.

If Nasdaq delists our common stock, it could become subject to the Securities and Exchange Commission "Penny Stock" rules. Penny stocks generally are equity securities with a price of less than \$5.00 per share that are not registered on a national securities exchange

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or quoted on the Nasdaq system. Broker-dealers dealing in our common stock would then be subject to additional burdens which may discourage them from effecting transactions in our common stock, which could make it difficult for investors to sell their shares and, consequently, limit the liquidity of our common stock.

In addition, if Nasdaq delists our common stock, we expect that some or all of the following circumstances will occur, which likely will cause a further decline in our trading price and make it more difficult to raise funds:

- . there will be less liquidity in our common stock;
- . there will be fewer institutional and other investors that will consider investing in our common stock;
- . there will be fewer market makers in our common stock;
- . there will be less information available concerning the trading prices and volume of our common stock; and
- . there will be fewer broker-dealers willing to execute trades in shares of our common stock.

Finance

Our debt level could adversely affect our financial health and affect our ability to run our business.

As of June 13, 2003, our debt was \$38.6 million, of which \$8.6 million was current borrowings and \$25.8 million related to convertible and preferred instruments. This level of debt could have important consequences to you as a holder of shares. Below we have identified for you some of the material potential consequences resulting from this significant amount of debt.

- . We may be unable to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate purposes.
- . Our ability to adapt to changing market conditions may be hampered. We may be more vulnerable in a volatile market and at a competitive disadvantage to our competitors that have less debt.
- . Our operating flexibility is more limited due to financial and other restrictive covenants, including restrictions on incurring additional debt, creating liens on our properties, making acquisitions and paying dividends.
- . We will be subject to the risks that interest rates and our interest expense will increase.
- . Our ability to plan for, or react to, changes in our business is more limited.

Under certain circumstances, we may be able to incur additional indebtedness in the future. If we add new debt, the related risks that we now face could intensify.

Our balance sheet contains several categories of intangible assets that we may be required to write-off or write-down based on the future performance of the Company, which may adversely impact our future earnings and our stock price.

As of December 31, 2002, we had \$67.1 million of unamortized intangible assets, including goodwill, licenses and patents, other intellectual property, and certain expenses that we amortize over time. Any material impairment to any of these items could reduce our net income and may adversely affect the trading price of our common stock.

We currently have \$44.5 million in goodwill capitalized on our balance sheet. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets," which requires among other things, the discontinuance of the amortization of goodwill and certain other intangible assets that have indefinite useful lives, and the introduction of impairment testing in its place. Under SFAS 142, goodwill and some indefinite-lived intangibles will not be amortized into results of operations, but instead will be tested for impairment at least annually, with impairment being measured as the excess of the carrying value of the goodwill or intangible asset over its fair value. In addition, goodwill and intangible assets will be tested more often for impairment as circumstances warrant, and may result in write-downs of some of our goodwill and indefinite-lived intangibles. Accordingly, we could, from time to time, incur impairment charges, which will be recorded as operating expenses and will reduce our net income and adversely affect our operating results.

We currently have approximately \$4.9 million related to a license fee prepaid in 1999 related to the solid object printer machine platform included under license and patent costs, net, in our financial statements. The amortization of this intangible is based on the number of solid object printer units sold. If future sales of the solid object printer machine platforms do not increase, then a more rapid rate of amortization of this balance will be required relative to the number of units sold.

We are carrying a significant amount of model-related inventory and tooling costs for a solid object printer machine platform.

We are carrying approximately \$2.0 million in inventory and tooling cost associated with the development and production of a new solid object printer machine platform. Changes to the bill of material as a result of the design validation testing, or abandonment of the new platform because of adverse market studies, may render inventory and tooling obsolete. Additionally, we continue to carry inventory and have vendor commitments related to our existing solid object printer model totaling \$1.1 million, which if not sold, could become obsolete. A significant write-down of inventory and tooling due to obsolescence could adversely affect our results of operations.

The mix of products we sell affects our overall profit margins.

We continuously expand our product offerings, including our materials, and work to increase the number of geographic markets in which we operate and the distribution channels we use in order to reach our various target markets and customers. This variety of products, markets and channels results in a range of gross margins and operating income which can cause substantial quarterly fluctuations depending on the mix of product shipments from quarter to quarter.

We may experience significant quarterly fluctuations in gross margins or net income due to the impact of the mix of products, channels, or geographic markets utilized from period to period. More recently, our mix of products sold has reflected increased sales of our lower end systems, which have reduced gross margins as compared to the high-end SLA systems. If this trend continues over time, we may experience lower average gross margins and returns.

We may be subject to product liability claims.

Products as complex as those we offer may contain undetected defects or errors when first introduced or as enhancements are released that, despite our testing, are not discovered until after the product has been installed and used by customers, which could result in delayed market acceptance of the product or damage to our reputation and business. We attempt to include provisions in our agreements with customers that are designed to limit our exposure to potential liability for damages arising from defects or errors in our products. However, the nature and extent of such limitations vary from customer to customer, and it is possible that these limitations may not be effective as a result of unfavorable judicial decisions or laws enacted in the future. The sale and support of our products entails the risk of product liability claims. Any product liability claim brought against us, regardless of its merit, could result in material expense to us, diversion of management time and attention, and damage to our business reputation and ability to retain existing customers or attract new customers.

Operations

We face significant competition in many aspects of our business and this competition is likely to increase in the future

We compete for customers with a wide variety of producers of equipment for models, prototypes and other 3-dimensional objects, ranging from traditional model makers and subtractive-type producers, such as CNC machine makers, to a wide variety of additive solid imaging system manufacturers as well as service bureaus that provide any or all of these types of technology, and producers of materials and services for this equipment. Some of our existing and potential competitors are researching, designing, developing and marketing other types of equipment, materials and services. Any reduction in our research and development efforts could affect our ability to compete effectively. Many of our competitors have financial, marketing, manufacturing, distribution and other resources substantially greater than ours. In many cases, the existence of these competitors extends the purchase decision time as customers investigate the alternative products and solutions. Under a settlement agreement with the Department of Justice relating to our merger with DTM, we were required to license certain of our patents for use in the manufacture and sale of either stereolithography or laser sintering products, but not both, in North America. On June 6, 2002, we entered into a license agreement with Sony Corporation, pursuant to which they would license our patents for use in the field of stereolithography in North America (defined as the United States, Canada and Mexico). On July 9, 2002, we were informed by the Department of Justice that they had approved Sony as our licensee. Although stereolithography is a very small part of its activities, and Sony has thus far only been able to be active in the Japanese/Asia Pacific region, Sony is an extremely large and sophisticated corporation with annual revenues in excess of \$58 billion. We cannot be certain of the market impact of the license to Sony, however we anticipate that Sony will be an aggressive competitor in all aspects of our stereolithography business.

Our material revenue, excluding DTM related revenues, declined significantly for the year ended December 31, 2002 as compared to the year ended December 31, 2001. This was due to the termination of our liquid resin research and development agreements with Vantico on April 22, 2002 we had jointly developed liquid photopolymers with Vantico and served as the exclusive worldwide distributor (except in Japan) of these materials. Sales of these materials accounted for 27.4% and 25.5% of our total revenues for 2002 and 2001, respectively. Sales of our materials excluding the LS product line accounted for 19.5% and 24.8% of our total revenues for 2002 and 2001 respectively. On September 20, 2001, we acquired RPC, an independent supplier of stereolithography resins located in Switzerland and many customers have converted from Vantico material to our RPC resins.

However, prices have fallen significantly as a result of increased competition. In addition, our management team does not have substantial experience in the materials development and manufacturing business. In addition, the manufacture of materials business increases some of the existing risks we face and poses new risks to our company. For example, we must comply with all applicable environmental laws, rules and regulations associated with large scale manufacturing of resins in Switzerland. Our compliance with these laws may

increase our cost of production and reduce our margins and any failure to comply with these laws may result in legal or regulatory action instituted against us, substantial monetary fines or other damages. In addition we entered into a two-year non-exclusive distribution agreement for the sale of a line of resins produced by another chemical manufacturer.

We also face significant competition in the supply of nylon powdered materials for laser sintering equipment where we have a leading position. In North America this competition is the subject of a patent infringement suit against EOS. We entered into two agreements with chemical manufacturers for the development, manufacture, and distribution of new nylon powder materials as well as a third agreement for the development of a new aluminum powder material.

We also expect future competition may arise from the development of allied or related techniques, both additive and subtractive, for equipment and materials that are not encompassed by our patents, from the issuance of patents to other companies that inhibit our ability to develop certain products, and from the improvement to existing material and equipment technologies. We have determined to follow a strategy of continuing product development and aggressive patent prosecution to protect our position to the extent practicable. We cannot assure you that we will be able to maintain our current position in the field or continue to compete successfully against current and future sources of competition.

If we do not keep pace with technological change and introduce new products, we may lose revenue and market share.

We are affected by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new standards and practices, any of which could render our existing products and proprietary technology and systems obsolete. We believe that our future success will depend on our ability to deliver products that meet changing technology and customer needs. To remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. Our success will depend, in part, on our ability to:

- . obtain leading technologies useful in our business,
- . enhance our existing products,
- . develop new products and technologies that address the increasingly sophisticated and varied needs of prospective customers, particularly in the area of material functionality,
- . respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis, and
- . recruit and retain key technology employees.

We have incurred and may continue to incur substantial expense protecting our patents and proprietary rights, which we believe are critical to our success.

We regard our copyrights, service marks, trademarks, trade secrets, patents and similar intellectual property as critical to our success. Third parties may infringe or misappropriate our proprietary rights, and we intend to pursue enforcement and defense of our patents and other proprietary rights. We have incurred, and may continue to incur, significant expenses in preserving our proprietary rights, and these costs could have a material adverse effect on our results of operations, liquidity and financial condition and could cause significant fluctuations in our operating results from quarter to quarter.

As of December 31, 2002, we held 359 patents, which include 152 in the United States, 146 in Europe, 17 in Japan, and 44 in other foreign jurisdictions. At that date, we also had 176 pending patent applications: 52 in the United States, 53 in Japan, 48 in European countries and 23 other foreign countries. As we discover new developments and components to our technology, we intend to apply for additional patents. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our products and services are made available. We cannot assure you that the pending patent applications will be granted or that we have taken adequate steps to protect our proprietary rights, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, our competitors may independently develop or initiate technologies that are substantially similar or superior to ours. We cannot be certain that we will be able to maintain a meaningful technological advantage over our competitors.

We currently are involved in several patent infringement actions, both as plaintiff and as defendant. At December 31, 2002, we had capitalized \$6.3 million in legal costs related to various litigation, which if not settled favorably, would need to be written off and

would have a significant negative impact on our financial results. Our ability to fully protect and exploit our patents and proprietary rights could be adversely impacted by the level of expense required for intellectual property litigation.

We, as successor to DTM, currently are involved in intellectual property litigation, the outcome of which could materially and adversely affect us.

On August 24, 2001, we completed our acquisition of DTM. As the successor to DTM, we face direct competition for selective laser sintering equipment and materials outside the United States from EOS GmbH of Planegg, Germany, which we refer to in this Report as EOS. Prior to our acquisition, DTM had been involved in significant litigation with EOS in France, Germany, Italy, Japan and the United States with regard to its proprietary rights to selective laser sintering technology. EOS has also challenged the validity of patents related to laser sintering in the European Patent Office and the Japanese Patent Office. In addition, EOS filed a patent infringement suit against DTM in federal court in California alleging that DTM infringed certain U.S. patents that we license to EOS.

Our inability to resolve the claims or to prevail in any related litigation could result in a finding of infringement of our licensed patents. Additionally, one EOS patent is asserted which, if found valid and infringed, could preclude the continued development and sale of certain of our laser sintering products that incorporate the intellectual property that is the subject of the patent. In addition, we may become obligated to pay substantial monetary damages for past infringement. Regardless of the outcome of these actions we will continue to incur significant related expenses and costs that could have a material adverse effect on our business and operations. Furthermore, these actions could involve a substantial diversion of the time of some members of management. The failure to preserve our laser sintering intellectual property rights and the costs associated with these actions could have a material adverse effect on our results of operations, liquidity and financial condition and could cause significant fluctuations in operating results from quarter to quarter.

We depend on a single or limited number of suppliers for specified components. If these relationships terminate, our business may be disrupted while we locate an alternative supplier.

We subcontract for manufacture of material laser sintering components, powdered sintering materials and accessories from a single-source third-party supplier. There are several potential suppliers of the material components, parts and subassemblies for our stereolithography products. However, we currently use only one or a limited number of suppliers for several of the critical components, parts and subassemblies, including our lasers, materials and certain ink jet components. Our reliance on a single or limited number of vendors involves many risks including:

- . shortages of some key components,
- . product performance shortfalls, and
- . reduced control over delivery schedules, manufacturing capabilities, quality and costs.

If any of our suppliers suffers business disruptions, financial difficulties, or if there is any significant change in the condition of our relationship with the supplier, our costs of goods sold may increase or we may be unable to obtain these key components for our products. In either event, our revenues, results of operations, liquidity and financial condition would be adversely affected. While we believe we can obtain most of the components necessary for our products from other manufacturers, any unanticipated change in the source of our supplies, or unanticipated supply limitations, could adversely affect our ability to meet our product orders.

Our ability to retain existing customers, and attract new customers may be impaired as a result of questions raised by our revenue recognition issues.

Our improper recognition of revenue with regard to certain sales transactions, the ensuing audit committee investigation and the adjustments to previously filed financial statements could seriously harm our relationships with existing customers and impair our ability to attract new customers. Customers who purchase our products make a significant long-term commitment to the use of our technology. Our products often become an integral part of each customer's facility and our customers look to us to provide continuing support, enhancements and new versions of our products. Because of the long-term nature of a commitment in some of our products, customers are often concerned about the stability of their suppliers. Purchasing decisions by potential and existing customers have been and may continue to be postponed, we believe in part due to

our improper recognition of revenue and the ensuing audit committee investigation. The failure to timely file our 10-K and 10-Q and the adjustments to our previously filed financial statements may cause existing and potential customers concern over our stability and these concerns may cause us to lose sales. Any loss in sales could adversely affect our results of operations, further deepening concern among current and potential customers. If potential and existing customers lose confidence in us, our competitive position in our industry may be seriously harmed and our revenues could further decline.

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The audit committee investigation into our revenue recognition issues and our recent reductions in work force, have caused turnover in our finance and sales which could have a material adverse effect on our business.

The recent departure of key accounting, finance and sales personnel may cause delays in completing our business initiatives and adversely impact our organization's institutional knowledge regarding key policies, significant contracts and agreements, and other key facts. We have experienced substantial turnover in our employees, including senior members of our finance, accounting and sales departments, since the commencement of the audit committee investigation. In addition, in 2002, we completed substantial reductions in our workforce and closed our office in Austin, Texas, which we acquired as part of our acquisition of DTM and our sales office in Farmington Hills, Michigan. Many of these departed employees had significant experience with our market, as well as relationships with many of our existing and potential customers and business partners. It will take substantial time for new employees to develop an in-depth understanding of our market and to form significant relationships with our customers and partners. In addition, the reductions in force may lead to reduced employee morale and productivity, increased attrition and difficulty retaining existing employees and recruiting future employees, any of which could harm our business and operating results.

We are seeking a significant number of new members to our organization. Our future success depends in substantial part on our ability to identify, hire, train, assimilate and retain an adequate number of highly qualified finance, sales, engineering, marketing, managerial and support personnel. Despite the current economic downturn, the competition for qualified employees in our industry is particularly intense and it can be difficult to attract and retain quality employees at reasonable cost. If we cannot successfully recruit and retain these persons our development and introduction of new products could be delayed and our ability to compete successfully could be impaired.

We face risks associated with conducting business internationally and if we do not manage these risks, our results of operations may suffer.

A material portion of our sales is to customers in foreign countries. There are many risks inherent in our international business activities that, unless managed properly, may adversely affect our profitability, including our ability to collect amounts due from customers. Our foreign operations could be adversely affected by:

- . unexpected changes in regulatory requirements,
- . export controls, tariffs and other barriers,
- . social and political risks,
- . fluctuations in currency exchange rates,
- . seasonal reductions in business activity in certain parts of the world, particularly during the summer months in Europe,
- . reduced protection for intellectual property rights in some countries,
- . difficulties in staffing and managing foreign operations,
- . taxation, and
- . other factors, depending on the country in which an opportunity arises.

Political and economic events and the uncertainty resulting from them may have a material adverse effect on our operating results.

The terrorist attacks that took place in the United States on September 11, 2001, along with the United States' military campaign against terrorism in Iraq, Afghanistan and elsewhere and continued violence in the Middle East have created many economic and political uncertainties, some of which may materially harm our

business and revenues. The disruption of our business as a result of these events, including disruptions and deferrals of customer purchasing decisions, had an immediate adverse impact on our business. Since September 11, 2001, some economic commentators have indicated that spending on capital equipment of the type that we sell has been weaker than spending in the economy as a whole, and many of our customers are in industries that are also viewed as under-performing the overall economy, such as the automobile and telecommunication industries. The long-term effects of these events on our customers, the market for our common stock, the markets for our services and the U.S. economy as a whole are uncertain. The consequences of any additional terrorist attacks, or any expanded-armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our markets, or our business.

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Management

The loss of Brian Service, our Chief Executive Officer, or our inability to attract and retain qualified executives could materially and adversely affect our business.

Our ability to develop and expand our products, business and markets and to manage our growth is dependent upon the services of our executive team, including Brian Service, who currently is employed as Chief Executive Officer. We do not maintain any key life insurance coverage for Mr. Service or any other member of our executive team. Our success also depends on our ability to attract and retain additional key technical, management and other personnel. Competition for these professionals is intense. The loss of the services of any of our key executives or the failure to attract and retain other key personnel could impair the development of new products and have an adverse effect on our business, operating results and financial condition.

Capital Structure

Our operating results vary from quarter to quarter, which could impact our stock price.

Our operating results fluctuate from quarter to quarter and may continue to fluctuate in the future. In some quarters it is possible that results could be below expectations of analysts and investors. If so, the price of our common stock may decline.

Many factors, some of which are beyond our control, may cause these fluctuations in operating results. These factors include:

- . acceptance and reliability of new products in the market,
- . size and timing of product shipments,
- . currency and economic fluctuations in foreign markets and other factors affecting international sales,
- . price competition,
- . delays in the introduction of new products,
- . general worldwide economic conditions,
- . changes in the mix of products and services sold,
- . impact of ongoing litigation, and
- . impact of changing technologies.

In addition, certain of our components require an order lead time of three months or longer. Other components that currently are readily available may become more difficult to obtain in the future. We may experience delays in the receipt of some key components. To meet forecasted production levels, we may be required to commit to long lead time prior to receiving orders for our products. If our forecasts exceed actual orders, we may hold large inventories of slow moving or unusable parts, which could have an adverse effect on our cash flows, profitability and results of operations.

Volatility of stock price.

Our future earnings and stock price may be subject to significant volatility, particularly on a quarterly basis. Shortfalls in our revenues or earnings in any given period relative to the levels expected by securities analysts could immediately, significantly and adversely affect the trading price of our common stock.

Historically, our stock price has been volatile. The prices of the common stock have ranged from \$4.00 to \$13.84 during the 52-week period ended May 16, 2003.

Factors that may have a significant impact on the market price of our common stock include:

- . future announcements concerning our developments or those of our competitors, including the receipt of substantial orders for products,

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- . quality deficiencies in services or products,
- . results of technological innovations,
- . new commercial products,
- . changes in recommendations of securities analysts,
- . proprietary rights or product, patent or other litigation, and
- . sales or purchase of substantial blocks of stock.

Takeover defense provisions may adversely affect the market price of our common stock.

Various provisions of our corporate governance documents and of Delaware law, together with our shareholders rights plan, may inhibit changes in control not approved by our Board of Directors and may have the effect of depriving you of an opportunity to receive a premium over the prevailing market price of our common stock in the event of an attempted hostile takeover.

The Board is authorized to issue up to five million shares of preferred stock, of which approximately 3.7 million is outstanding or reserved for issuance. The Board also is authorized to determine the price, rights, preferences and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of any preferred stock may adversely affect the rights of holders of common stock. Our ability to issue preferred stock gives us flexibility concerning possible acquisitions and financing, but it could make it more difficult for a third party to acquire a majority of our outstanding voting stock. In addition, any preferred stock to be issued may have other rights, including economic rights, senior to the common stock, which could have a material adverse effect on the market value of the common stock. In addition, provisions of our Certificate of Incorporation and Bylaws could have the effect of discouraging potential takeover attempts or making it more difficult for stockholders to change management.

We are subject to Delaware laws that could have the effect of delaying, deterring or preventing a change in control of the Company. One of these laws prohibits us from engaging in a business combination with any interested stockholder for a period of three years from the date that the person became an interested stockholder, unless certain conditions are met.

In addition, we have adopted a Shareholders' Rights Plan. Under the Shareholders' Rights Plan, we distributed a dividend of one right for each outstanding share of our common stock. These rights will cause substantial dilution to the ownership of a person or group that attempts to acquire us on terms not approved by our Board of Directors and may have the effect of deterring hostile takeover attempts.

The number of shares of common stock issuable upon conversion of our Debentures and exercise of our Series B Convertible Preferred Stock could dilute your ownership and negatively impact the market price for our common stock.

Our shares of Series B Convertible Preferred Stock are convertible at any time into approximately 2,634,016 shares of common stock. Our subordinated debt is convertible at any time into approximately 833,333 shares of common stock. To the extent that all of the shares of preferred stock and debentures are converted, a significantly greater number of shares of our common stock will be outstanding and the interests of our existing stockholders may be diluted. Moreover, future sales of substantial amounts of our stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock.

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Item 7a. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of interest rate changes and foreign currency fluctuations.

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relates primarily to our cash investments and long-term debt. We invest our excess cash in money market funds or other high quality investments. We protect and preserve our invested funds by limiting default, market and reinvestment risk.

Investments in floating rate interest-earning instruments carry a degree of interest rate risk. Floating rate securities may produce less income than expected if interest rates fall. Due in part to this factor, our future investment income may fall short of expectations due to changes in interest rates.

We are exposed to interest rate risk on our revolving credit facility and term loan with US Bank, which have variable interest rates. At December 31, 2002, we had a total of \$2.4 million outstanding under our revolving credit facility and \$10.4 million outstanding on our term loan. The interest rates at December 31, 2002 for the revolving credit facility and the term loan were 7.5% and 6.42%, respectively. The revolving credit facility expires in 2003. This loan was paid off in May 2003.

We have an industrial development bond on our Colorado facility, which has an outstanding balance of \$4.2 million. We will make annual principal payments of \$150,000, \$165,000, \$180,000, \$200,000, \$220,000, for the years ending 2003, 2004, 2005, 2006, 2007 and \$3,325,000 thereafter. The bond has a variable interest rate and the interest rate at December 31, 2002 was 1.31%. An increase or decrease in the variable interest rate of 1.00% would increase or decrease our annual interest expense by \$42,000. We have not entered into any hedging contracts to protect ourselves against future changes in interest rates, which could negatively impact the amount of interest we are required to pay. However, we do not feel that this risk is significant and we do not plan to attempt to hedge to mitigate this risk in the foreseeable future.

In the fourth quarter of 2001, we sold convertible subordinate debentures. As of December 31, 2001 we received \$9.4 million in proceeds from this sale. We received additional proceeds of \$600,000 in January 2002, for a total of \$10.0 million. The convertible debentures are convertible into an aggregate of 833,333 shares of our common stock immediately at the option of the holder or at our discretion at any time after December 31, 2003, and prior to maturity at December 31, 2006. The debentures bear interest at the rate of 7% payable quarterly. The Chairman of the Board of Directors and related parties contributed \$1.0 million to the completion of the convertible debentures.

The carrying amount, principal maturity and estimated fair value of long-term debt exposure as of December 31, 2002 are as follows:

	Carrying Amount 2002	2003	2004	Payments 2005	2006	2007	Later Years	Fair Value
Line of credit	\$ 2,450	\$ 2,450	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,450
Interest rate	7.5%							
Term loan	\$ 10,350	\$ 10,350	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 10,350
Interest rate	6.42%							
Industry Development Bond	\$ 4,240	\$ 150	\$ 165	\$ 180	\$ 200	\$ 220	\$ 3,325	\$ 4,240
Interest rate	1.31%							
Subordinated debt	\$ 10,000	\$ --	\$ --	\$ --	\$ 10,000	\$ --	\$ --	\$ 8,560
	7.00%							

Foreign Currency Risk. International revenues accounted for approximately 50.5% of our total revenue in 2002. International sales are made primarily from our foreign sales subsidiaries in their respective countries and are denominated in United States dollars or the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

Our international business is subject to risks typical of an international business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Our exposure to foreign exchange rate fluctuations arises in part from inter-company accounts in which costs incurred in the United States are charged to our foreign sales subsidiaries. These inter-company accounts are typically

denominated in United States dollars. We are also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into United States dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact overall expected profitability. The realized effect of foreign exchange rate fluctuations in 2002 resulted in a \$1.3 million gain.

As of December 31, 2002, we had investments in foreign operations that are sensitive to foreign currency exchange rates, including non-functional currency denominated receivables and payables. The net amount that is exposed in foreign currency when subjected to a 10% change in the value of the functional currency versus the non-functional currency produces an approximate \$4.2 million change in our balance sheet as of December 31, 2002.

The Company uses derivative instruments to manage exposure to foreign currency risk. The Company manages selected exposures through financial market transactions in the form of foreign exchange forward and put option contracts. The Company does not enter into derivative contracts for speculative purposes. The Company does not hedge its foreign currency exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on its consolidated net (loss) income. The Company has no put option contracts in place on December 31, 2002. The notional amount covered by all of our put option contracts was \$8.5 million at December 31, 2001. The put options were related to transactions denominated in Euros and pounds sterling, with settlement dates in January and February 2002. The premium paid for the put options was \$144,000 in 2001, and the market value was approximately \$8,000 at December 31, 2001.

Item 8. Financial Statements and Supplementary Data

Consolidated financial statements as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 are included on pages F-1 to F-33 of this filing.

PART III

Item 10. Directors and Executive Officers of Registrant

Directors and Executive Officers

The following persons serve as our directors as of June 13, 2003:

Directors -----	Age ---	Present Position -----
Miriam V. Gold (1) (2)	54	Director
Charles W. Hull	64	Director
Jim D. Keever (2) (3).....	50	Director
G. Walter Loewenbaum II (1).....	58	Director and Chairman of the Board
Kevin S. Moore (1) (2) (3).....	48	Director
Brian K. Service.....	55	Director
Richard C. Spalding (3).....	52	Director

- (1) Member of the Compensation Committee.
- (2) Member of the Corporate Governance Committee.
- (3) Member of the Audit Committee.

The following persons serve as our executive officers as of June 13, 2003:

Executive Officers -----	Age ---	Present Position -----
Brian K. Service	55	Chief Executive Officer, Chief Operating Officer and President
Charles W. Hull.....	64	Executive Vice President, Chief Technology Officer
G. Peter V. White	62	Vice President, Finance
Kevin McAlea, Ph.D.	44	Senior Vice President, Worldwide Revenue Generation

Ray Saunders..... 54 Senior Vice President Operations
and Development

The following person is a significant employee as of June 13, 2003:

Significant Employees	Age	Present Position
-----	---	-----
Keith Kosco.....	50	General Counsel and Corporate Secretary

Our executive officers are appointed by and serve at the discretion of the Board of Directors. There are no family relationships between any director and/or any executive officer.

Miriam V. Gold. Ms. Gold has been our director since 1994. Since July 2002, Ms. Gold has been Deputy General Counsel of Ciba Specialty Chemical Corporation. Prior to that, since 1992, Ms. Gold served as Assistant General Counsel of Ciba Specialty Chemicals Corporation, and its predecessors, Novartis Inc. and Ciba-Geigy Corporation. Her legal practice involves a broad range of matters, including counseling on compliance, antitrust and general business issues. In addition, she was Vice President of Legal & Regulatory Affairs for the Additives Division of Ciba from 1995 to 2001. In 2002, Ms. Gold was an adjunct professor at Pace University School of Law, where she taught a course in In-House Practice, focusing on the unique role of in-house counsel in ensuring that companies are positioned to operate legally and responsibly. Ms. Gold received her J.D. from New York University School of Law, and her B.A. in American History from Barnard College.

Charles W. Hull. Mr. Hull has been our director since 1993. Since April 1997, Mr. Hull has served as our Chief Technology Officer and, effective May 3, 2000, as Executive Vice President and a member of the Office of the Chief Executive Officer. Mr. Hull also has served as Vice Chairman of our Board of Directors and as our President and Chief Operating Officer. From March 1986 until April 1997, Mr. Hull served as President of 3D Systems, Inc. From February to June 1999, Mr. Hull acted as a consultant to us and served as a Vice Chairman of our Board of Directors. From January 1980 to March 1986, Mr. Hull was Vice President of UVP, Inc., a systems manufacturing company, where he developed our stereolithography technology.

Jim D. Kever. Mr. Kever has been our director since 1996. He is Principal in Voyent Partners, LLC, a venture capital partnership. From August 1995 until May 2001, Mr. Kever was associated with WebMD Corporation, Transaction Services Division (formerly Envoy Corporation) as the President and Co-Chief Executive Officer. Prior to August 1995, he served as Envoy Corporation's

Executive Vice President, Secretary and General Counsel. Mr. Kever also is a director of Transaction Systems Architects, Inc., a supplier of electronic payment software products and network integration solutions, as well as Luminex Corporation, a value-added manufacturer of laboratory testing equipment. He also is on the Board of Directors of Tyson Foods, Inc., an integrated processor of poultry-based food products.

G. Walter Loewenbaum II. Mr. Loewenbaum has been our director since March 1999, serving as a Vice Chairman of the Board until September 1999 when he was elected Chairman of the Board. Mr. Loewenbaum is Managing Director of LeCorgne Loewenbaum LLC. Prior to that, since 1990, he served as Chairman and Chief Executive Officer of Loewenbaum & Company (formerly Southcoast Capital Corp.), an investment banking and investment management firm that he founded. Mr. Loewenbaum also serves as the Chairman of the Board of Luminex Corporation, a value-added manufacturer of laboratory testing equipment.

Kevin S. Moore. Mr. Moore has been our director since October 1999. Since 1991, Mr. Moore has been with The Clark Estates, Inc., a private investment firm, where he currently is President and a director. Mr. Moore also is a director of Ducommun, Incorporated, as well as Aspect Resources LLC, The Clark Foundation and the National Baseball Hall of Fame & Museum, Inc.

Brian K. Service. Mr. Service has served as our President and Chief Executive Officer since September 1999 and, since October 1999, also has served as President and Chief Executive Officer of 3D Systems, Inc. Mr. Service was elected to 3D Systems' Board of Directors in January 2001. From September 1999 to September 2002, Mr. Service provided his services to us pursuant to an agreement between us and Regent Pacific Management Corporation, where he was a Managing Director. Prior to Regent Pacific, Mr. Service served as Chief Executive Officer of Salmund Smith Biolab, Ltd. Prior to Salmund, he was Chief Executive Officer of Milk Products, Inc. Mr. Service holds a Bachelor's degree in Chemical Engineering from Canterbury University of New Zealand and has completed the Stanford Executive Program from Stanford University Business

School. Mr. Service also was a director of Visual Data Corporation until April 2003.

Richard C. Spalding. Mr. Spalding has been our director since 2001. Since April 1999, Mr. Spalding has served as a Partner of Thomas Weisel Healthcare Venture Partners, a venture capital group which Mr. Spalding co-founded. Since January 2000, Mr. Spalding also has served as a General Partner of ABS Ventures, a venture capital group. From February 1997 to March 1999, Mr. Spalding served as Vice President and Chief Financial Officer of Portal Software, an Internet billing company. From March 1996 to February 1997, he served as Vice President Finance and Corporate Development for Fusion Medical Technology. From November 1991 to February 1996, he served as Managing Director of Alex Brown & Sons, heading up the Investment Banking for the West Coast. From June 1977 to November 1991, Mr. Spalding practiced law with Brobeck, Phleger and Harrison, serving as outside counsel for numerous public and private companies.

G. Peter V. White. Mr. White has served as our Vice President, Finance since March 2003. Prior thereto, from June 2002 to March 2003, he served as Managing Director of WHI-Tec & Associates. From January 1998 to June 2002, Mr. White served as the Chief Financial Officer and Chief Operating Officer of MATRIX-Systems, Inc., and prior to that, he served as Managing Director of Phoenix Equity Partners since January 1996.

Kevin McAlea, Ph.D. Dr. McAlea has served as our Senior Vice President, Worldwide Revenue Generation since May 2003. Prior thereto, from September 2001 to May 2003, he served as our Vice President & General Manager, Europe. From 1997 to August 2001, he served as Vice President, Marketing and Business Development of DTM Corporation, a Texas corporation which we acquired in August 2001. From 1993 to 1997, Dr. McAlea served as Director of Process and Materials Development of DTM. Prior to DTM, Dr. McAlea spent more than eight years in materials research and development for General Electric Company. His last position was managing the Polymer Physics Program at GE's Corporate Research and Development Center.

Ray Saunders. Mr. Saunders has served as our Senior Vice President Operations and Development since May 2003. From July 2002 to May 2003, Mr. Saunders served as our Vice President of Operations and Development and, prior to that, as our Vice President of Manufacturing since September 2000. From January 1994 until September 2000, Mr. Saunders served as Director of Operations for Axiohm Transaction Solutions, Inc. where he was responsible for the manufacturing operations of its San Diego Division. Prior to Axiohm, he was the Vice President and General Manager of Brumko Magnetics, Inc., a division of Applied Magnetics Corporation.

Keith Kosco. Mr. Kosco has served as our General Counsel since April 2002 and as our Corporate Secretary since May 2002. From September 2001 until April 2002, he was an independent consultant. From May 1998 until September 2001, Mr. Kosco served as the Assistant General Counsel of Litton Industries. From November 1996 until April 1998, he was Of Counsel to the law firm of Squire, Sanders & Dempsey LLP, and from July 1981 until April 1996 he was an Associate and then a Partner with the law firm of Morgan, Lewis & Bockius, LLP.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, officers (including a person performing a principal policy-making function) and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities of ours. Directors, officers and 10% holders are required by Securities and Exchange Commission regulations to send us copies of all of the Section 16(a) reports they file. Based solely upon a review of the copies of the forms sent to us and the representations made by the reporting persons to us, we believe that during the fiscal year ended December 31, 2002, our directors, officers and 10% holders complied with all filing requirements under Section 16(a) of the Exchange Act, provided, however, Brian K. Service filed a Form 5, which reported one transaction on an untimely basis.

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The following table sets forth, as to the Chief Executive Officer and as to each of the other four most highly compensated officers whose compensation exceeded \$100,000 during the last fiscal year (referred to in this Annual Report as named executive officers), information concerning all compensation paid for services to us in all capacities for each of the three years ended December 31 indicated below.

Name Principal Position/(1)/	Fiscal Year Ended December 31	Annual Compensation		Long Term Compensation	
		Salary	Bonus	Number of Securities Underlying Options	All Other Compensation
Brian K. Service	2002	\$ / (2) /	--	350,000	\$ 151,434 / (3) /
President & Chief	2001	/ (2) /	--	--	--
Executive Officer	2000	/ (2) /	--	--	--
Charles W. Hull	2002	\$ 275,000	--	--	\$ 2,040 / (4) /
Executive Vice President	2001	\$ 275,000	--	10,000	\$ 26,679 / (5) /
& Chief Technology Officer	2000	\$ 275,000	\$ 66,000	--	\$ 3,518 / (4) /
Grant R. Flaharty / (6) /	2002	314,000	--	25,000	\$ 1,823 / (4) /
Executive Vice President	2001	\$ 263,077	--	10,000	\$ 9,941 / (7) /
of Global Business Operations	2000	\$ 213,462	\$ 70,442	40,000	\$ 36,357 / (8) /
E. James Selzer / (9) /	2002	\$ 240,769	--	--	\$ 1,705 / (4) /
Sr. VP, Global Finance & Administration and Chief	2001	\$ 200,000	\$ 40,000	10,000	\$ 1,662 / (4) /
Financial Officer	2000	\$ 108,870	--	75,000	\$ 1,578 / (4) /
Ray Saunders	2002	\$ 173,046	--	10,000	1,839 / (4) /
Senior Vice President	2001	\$ 149,988	\$ 8,727	11,500	1,753 / (4) /
Operations and Development	2000	\$ 45,378	--	30,000	67 / (4) /

- (1) For a description of the employment contracts between certain officers and us, see "Employment Agreements" below.
- (2) Mr. Service was appointed our President and Chief Executive Officer on September 16, 1999. From September 1999 to September 2002, Mr. Service was compensated for his services by Regent Pacific. We had an agreement with Regent Pacific, pursuant to which Regent Pacific provided the management services of a team of up to three full-time executives, including the chief executive, at an aggregate fee of \$45,000 per week. Although our named executive officers do not include the Regent Pacific executives for any periods presented, it is likely that these persons would have qualified as our most highly compensated officers if a pro rata portion of the fee paid to Regent Pacific were attributed to them as compensation. From September 10, 2002 (the date of termination of the Regent Agreement), through October 15, 2002, Mr. Service was engaged on an interim consulting basis for which he was paid \$79,999. Effective October 15, 2002, Mr. Service is employed by us pursuant to an employment agreement and he received \$87,264 for services in 2002.
- (3) Consists of consulting fees paid to Brian K. Service, Inc. for which Mr. Service serves as a stockholder, officer and director.
- (4) Consists of the value of insurance premiums for employer paid group term life insurance and employer matching contributions made pursuant to our Section 401(k) plan.
- (5) Consists of the value of insurance premiums for employer paid group term life insurance and employer matching contributions made pursuant to our Section 401(k) plan and loan forgiveness (\$23,671). See Item 13. Certain Relationships and Related Party Transactions.
- (6) Mr. Flaharty was reassigned from his position and no longer serves as a executive officer of the Company effective May 23, 2003.

- (7) Consists of the value of insurance premiums for employer paid group term life insurance and employer matching contributions in 2001 made pursuant to our Section 401(k) plan and below market interest attributable to a moving

facilitation loan in 2000. See Item 13. Certain Relationships and Related Party Transactions.

- (8) Consists of the value of insurance premiums for employer paid group term life insurance, moving-related expenses totaling \$30,658, and employer matching contributions made pursuant to our Section 401(k) plan.
- (9) Mr. Selzer's employment with the Company terminated effective April 2003.

Option Grants in Fiscal 2002

The following table sets forth certain information regarding the grant of stock options made during fiscal 2002 to the named executive officers.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted To Employees in Fiscal Year	Exercise or Base Price / (1) /	Expiration Date	Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term / (2) /	
					5% (\$)	10% (\$)
Brian K. Service	350,000	47%	\$5.78	10/14/07	2,581,918	3,258,062
Charles W. Hull	--	--	--	--	--	--
Grant R. Flaharty	25,000	3.3%	\$11.98	2/5/12	487,854	776,826
E. James Selzer	--	--	--	--	--	--
Ray Saunders	10,000	1.3%	\$11.98	2/5/12	195,060	310,601

- (1) The exercise price and tax withholding obligations related to exercise may be paid by delivery of already owned shares, subject to certain conditions.
- (2) The potential realizable value is based on the assumption that the common stock appreciates at the annual rate shown (compounded annually) from the date of grant until the expiration of the option term. These amounts are calculated pursuant to applicable requirements of the Securities and Exchange Commission and do not represent a forecast of the future appreciation of the common stock.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth, for each of the named executive officers, certain information regarding the exercise of stock options during fiscal 2002, the number of shares of common stock underlying stock options held at fiscal year-end and the value of options held at fiscal year-end based upon the last reported sales price of the common stock on The Nasdaq National Market on December 31, 2002 (\$7.80 per share).

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2002 (#)		Value of Unexercised In-the-Money Options at December 31, 2002 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Brian K. Service	--	--	350,000	--	1,986,250	--
Charles W. Hull	--	--	77,500	7,500	--	--
Grant R. Flaharty	--	--	142,500	52,500	450,937	28,437
E. James Selzer	--	--	60,000	25,000	--	--
Ray Saunders	--	--	19,000	32,500	--	--

Employment Agreements

We have entered into employment contracts with the following named executive officers.

Brian K. Service has been retained as Chief Executive Officer. Mr. Service's services previously were provided under an arrangement with Regent Pacific Management Corporation. From September 10, 2002 (the date of termination of the Regent Agreement), through October 15, 2002, Mr. Service was engaged on an interim consulting basis for which he was paid \$79,999. Effective October 15,

2002, Mr. Service is employed by us pursuant to an employment agreement under which he has agreed to serve as Chief Executive Officer until at least December 2003. Mr. Service is being paid \$17,809 on a bi-weekly basis under this agreement, and has been awarded fully vested options, with a term of five years, to purchase 350,000 shares of our common stock at a price of \$5.78 (the closing price on October 15, 2002).

On November 18, 2002, we entered into a consulting agreement with Brian K. Service, Inc., a corporation in which our Chief Executive Officer is a stockholder, officer and director. Pursuant to this agreement, we pay to Brian K. Service, Inc. an amount up to \$310,000 for an 11-month period for the provision of the services of qualified consultants to us. Under this agreement, we paid Brian K. Service, Inc. \$71,000 through December 31, 2002.

We entered into an employment agreement with Mr. Hull in April 1994, pursuant to which Mr. Hull served as President and Chief Operating Officer of both us and 3D Systems, Inc. until April 1997, at which time Mr. Hull was appointed our Vice Chairman and Chief Technology Officer. Pursuant to the agreement, Mr. Hull's initial base salary was \$200,000 per year, subject to increase at the discretion of the Board of Directors. Effective November 7, 1994, January 1, 1996, February 1, 1997, and January 1, 1998, the Board of Directors increased Mr. Hull's base salary to \$235,000, \$250,000, \$262,500 and \$275,000, respectively. In addition to standard benefits, Mr. Hull is eligible to participate in the Executive Incentive Compensation Plan. Mr. Hull's employment agreement also permits Mr. Hull, at any time during his employment term, to terminate his duties under the agreement and elect to become a consultant to us. Effective February 28, 1999, Mr. Hull terminated his duties under the agreement and Mr. Hull, we and 3D Systems, Inc. entered into a four-year consulting agreement. Mr. Hull's duties pursuant to the agreement included consulting with our Board of Directors and our officers concerning those aspects of the business with which Mr. Hull previously had been concerned. As compensation for Mr. Hull's consulting services, we paid Mr. Hull at an annual rate of \$275,000 for the period March 1999 through May 1999. In June 1999, Mr. Hull rejoined us as our Chief Technology Officer at a base salary of \$275,000. Effective May 3, 2000, Mr. Hull was promoted to Executive Vice President and a member of the Office of the Chief Executive Officer; he continues his duties as Chief Technology Officer.

Stock Incentive Plans

We have in effect the 1989 Employee and Director Plan, the 1996 Stock Incentive Plan, the 1996 Non-Employee Directors' Stock Option Plan, the 1998 Employee Stock Purchase Plan and the 2001 Stock Option Plan. The purpose of our plans is to advance our interests and our stockholders by strengthening our and our subsidiaries' ability to obtain and retain the services of the types of officers and employees who will contribute to our long term success and to provide incentives which are linked directly to increases in stock value which will inure to the benefit of all of our stockholders.

Directors' Compensation

We pay our non-employee directors an annual retainer of \$15,000 plus \$1,500 for each Board meeting attended either in person or telephonically, and \$1,500 for attendance at each committee meeting not held on a day that a Board meeting was held. Non-employee directors also each receive an annual automatic grant of ten-year options to purchase, at the fair market value of our common stock on the date of grant, 10,000 shares of our common stock. In addition, the Chairperson of Audit Committee receives an annual retainer of \$15,000, and the Chairpersons of the Corporate Governance and Compensation Committees and the members of the Audit Committee each receives an annual retainer of \$5,000.

Compensation Committee Interlocks and Insider Participation

We have no interlocking relationships involving any of our Compensation Committee members that would be required by the Securities and Exchange Commission to be reported in this Annual Report, and no officer or employee of ours serves on our Compensation Committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Principal Stockholders

The following table sets forth as of June 13, 2003, unless otherwise indicated, certain information relating to the ownership of our common stock by (i) each person known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock, (ii) each of our directors, (iii) each

of our named executive officers, and (iv) all of our executive officers and directors as a group. Except as may be indicated in the footnotes to the table and subject to applicable community property laws, each person identified in the table has the sole voting and investment power with respect to the shares owned. The address of each person listed is in care of 3D Systems Corporation, 26081 Avenue Hall, Valencia, California 91355, unless otherwise set forth below the person's name.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
----- Directors: -----		
Miriam V. Gold	40,299 (2)	*
Charles W. Hull	581,963 (3)	4.5%
Jim D. Kever	75,000 (4)	*
G. Walter Loewenbaum II	1,305,013 (5)	9.9%
Kevin S. Moore	1,782,206 (6)	13.1%
Brian K. Service	376,300 (7)	2.9%
Richard C. Spalding	3,840 (8)	*
----- Non-Director Named Executive Officers: -----		
Grant R. Flaharty (9)	127,367 (10)	1.0%
Kevin McAlea, Ph.D.	18,750 (2)	*
Ray Saunders	36,500 (2)	*
E. James Selzer (11)	63,179 (12)	*
G. Peter V. White	--	*
----- 5% Holders: -----		
The Clark Estates, Inc. One Rockefeller Plaza, New York, New York 10020	1,766,605 (6)	13.0%
St. Denis J. Villere & Company 210 Baronne Street, Suite 808, New Orleans, Louisiana 70112	1,230,114 (13)	9.7%
Daruma Asset Management, Inc. 60 East 42nd Street, Suite 1111, New York, New York 10165	1,423,200 (14)	11.2%
T. Rowe Price Associates, Inc. 100 East Pratt Street, Baltimore, Maryland 21202	1,032,500 (15)	8.1%
----- Directors and officers as a group (10 persons)	4,219,871 (16)	28.8%

* Less than one percent.

(1) Under Rule 13d-3, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by the person (and only the person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of our common stock actually outstanding at June 13, 2003.

(2) Consists of shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003.

(3) Includes (a) 409,344 shares of our common stock held in the Charles William

Hull and Charlene Antoinette Hull 1992 Revocable Living Trust for which Mr. and Mrs. Hull serve as trustees, (b) 77,500 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003 and (c) 8,333 shares issuable upon conversion of our Series B Convertible Preferred Stock.

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- (4) Includes (a) 33,333 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003, (b) 29,167 shares issuable on conversion of convertible debentures (8,333 of which relate to debentures owned by a trust for the benefit of Mr. Kever's minor children, with respect to which Mr. Kever disclaims beneficial ownership) and (c) 1,000 shares of our common stock held in trust for the benefit of Mr. Kever's minor children, with respect to which Mr. Kever disclaims beneficial ownership.
- (5) Includes (a) 45,000 shares held in the name of Lillian Shaw Loewenbaum, Mr. Loewenbaum's wife, (b) 54,498 shares held in the name of the Loewenbaum 1992 Trust for which Mr. and Mrs. Loewenbaum serve as trustees, (c) 150,000 shares held in the name of the Guaranty & Trust Co ttee fbo G. Walter Loewenbaum, Mr. Loewenbaum's pension plan, (d) 72,065 shares held in the name of The Waterproof Partnership LTD for which Mr. and Mrs. Loewenbaum serve as the general partners and as certain of the limited partners, (e) 16,594 shares held in the name of the Anna Loewenbaum 1992 Trust for which Mr. and Mrs. Loewenbaum serve as trustees, (f) 16,594 shares held in the name of the Elizabeth Loewenbaum 1992 Trust for which Mr. and Mrs. Loewenbaum serve as trustees, (g) 175,000 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003, (h) 83,333 shares issuable on conversion of convertible debentures and (i) 208,334 shares issuable upon conversion of our Series B Convertible Preferred Stock.
- (6) Includes (a) 933,272 shares owned by The Clark Estates, Inc. with respect to which Mr. Moore disclaims beneficial ownership, (b) 833,333 shares issuable upon conversion of our Series B Convertible Preferred Stock held by Clark Partners I, L.P., with respect to which Mr. Moore disclaims beneficial ownership, and (c) 9,999 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003. Mr. Moore is the President and a director of The Clark Estates, Inc. and the President of the general partner of Clark Partners I, L.P.
- (7) Includes (a) 350,000 shares of our common stock reserved for issuance upon exercise of stock options that are or will become exercisable on or prior to August 13, 2003 and (b) 25,000 shares issuable upon conversion of our Series B Convertible Preferred Stock.
- (8) Includes 3,333 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003.
- (9) Mr. Flaharty was reassigned from his position and no longer serves as a executive officer of the Company effective May 23, 2003.
- (10) Includes 119,500 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003.
- (11) Mr. Selzer's employment with the Company terminated effective April 2003.
- (12) Includes 60,000 shares of our common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or prior to August 13, 2003.
- (13) St. Denis J. Villere & Company, which we refer to as Villere in this Annual Report, is a Louisiana partnership in commendam, an investment advisor registered under the Investment Advisors Act of 1940. As of December 31, 2001, Villere was deemed to have or share voting or dispositive power over, and therefore to own beneficially 1,230,114 shares. Of that amount, Villere has sole voting and dispositive power over 98,833 shares and shared voting and dispositive power over 1,131,281 shares. All information regarding the beneficial ownership of our securities by Villere is taken exclusively from Amendment No. 1 to Schedule 13G filed by Villere on February 11, 2003.
- (14) Daruma Asset Management, Inc., a New York corporation, which we refer to as Daruma in this Annual Report, is a an investment advisor registered under the Investment Advisors Act of 1940. These securities are beneficially owned by one or more investment advisory clients whose accounts are managed by Daruma. Investment advisory clients of Daruma have the right to receive

dividends, as well as the proceeds, from the sale of these securities. The investment advisory contracts relating to these accounts grant to Daruma sole investment and/or voting power over the securities owned by the accounts. Therefore, Daruma may be deemed to be the beneficial owner of these securities for purposes of Rule 13d-3 under the Securities Act of 1934, as amended. Mariko O. Gordon owns in excess of 50% of the outstanding voting stock and is the president of Daruma. Ms. Gordon may be deemed to be the beneficial owner of securities held by persons and entities advised by Daruma for purposes of Rule 13d-3. Daruma and Ms. Gordon each disclaims beneficial ownership in any of these securities. Daruma and Ms. Gordon are of the view that they are not acting as a "group" for purposes of Section 13(d) under the Securities Act of 1934 and that they are not otherwise required to attribute to each other the "beneficial ownership" of securities held by any of them or by any persons or entities advised by Daruma. All information regarding the beneficial

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ownership of our securities by Daruma is taken exclusively from Amendment No. 4 to Schedule 13G filed by Daruma on February 18, 2003.

- (15) T. Rowe Price Associates, Inc., which we refer to as T. Rowe Price in this Annual Report, is a Maryland corporation, an investment advisor registered under the Investment Advisors Act of 1940, and T. Rowe Price Small-Cap Value Fund, Inc. is a Maryland corporation. As of February 14, 2003, T. Rowe Price was deemed to have sole voting or dispositive power over, and therefore to own beneficially, 1,032,000 shares of our common stock. All information regarding the beneficial ownership of our securities by T. Rowe Price is taken exclusively from a Schedule 13G filed by T. Rowe Price on February 5, 2003.
- (16) Includes (a) 744,714 shares of our common stock reserved for issuance upon exercise of stock options that are or will become exercisable on or prior to August 13, 2003, (b) 112,500 shares issuable upon conversion of convertible debentures and (c) 1,075,000 shares issuable upon conversion of our Series B Convertible Preferred Stock.

The information as to shares beneficially owned has been individually furnished by our respective directors, named executive officers, and other stockholders, or taken from documents filed with the Securities and Exchange Commission.

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Item 13. Certain Relationships and Related Transactions

Certain Transactions with Directors and Executive Officers and 5% Stockholders

Except as disclosed in this Annual Report, neither our directors or executive officers nor any stockholder owning more than five percent of our issued shares, nor any of their respective associates or affiliates, had any material interest, direct or indirect, in any material transaction to which we were a party during fiscal 2002, or which is presently proposed.

See "Employment Agreements" for a summary of employment agreements with certain of our executive officers.

On September 9, 1999, the Company and Regent Pacific Management Corporation executed an agreement pursuant to which Regent Pacific agreed to provide certain key management employees' services to the Company at a fee of \$45,000 per week, including the services of Mr. Service, as President and Chief Executive Officer, and up to two other Regent Pacific personnel as part of the Company's management team. The Regent Agreement also provided that Gary J. Sbona, Chairman and Chief Executive Officer of Regent Pacific, join the Company's Board of Directors. The Agreement had a one-year term and, on August 8, 2000 was extended for an additional one-year term, and provided for the availability of up to two additional executives to provide management services on an as needed basis, beginning as of February 12, 2000. The Agreement was again extended on October 30, 2001 for an additional one-year term under the same terms as the previous extension. The Agreement also required that the Company provide Director & Officer insurance for Messrs. Sbona and Service.

Simultaneously with the execution of the Regent Agreement, the Company entered into an employment agreement with Gary J. Sbona. As an inducement to Mr. Sbona to provide services as a part-time employee of the Company, the Board of Directors granted to him an option to purchase 350,000 shares of the Company's

Common Stock at an exercise price of \$6.00 per share. The shares subject to such option generally vest over a three year period, or sooner subject to certain conditions. On August 8, 2000 the Oversight Committee (later subsumed into the newly created Corporate Governance Committee) extended Mr. Sbona's Employment Agreement for an additional year and authorized the grant of an additional 350,000 shares to Mr. Sbona at an exercise price of \$17.3875 per share. The shares subject to this option vest on the same basis as the shares granted in 1999. On October 30, 2001, the Oversight Committee of the Board of Directors extended Mr. Sbona's Employment Agreement for an additional year and authorized the grant of an additional 350,000 shares to Mr. Sbona at an exercise price of \$12.4280.

On May 1, 1999, we entered into an employment agreement with G. Walter Loewenbaum II, Chairman of the Board, whereby Mr. Loewenbaum agreed to provide part-time services to us in the area of strategic direction in exchange for \$10,000 per month and an option to purchase 150,000 shares of our common stock at a price of \$6.6125 per share. The options vested on January 1, 2000. The original term of the agreement was for six (6) months. On December 20, 1999, the Board of Directors voted, with Mr. Loewenbaum abstaining, to change Mr. Loewenbaum's status to "at-will" employee pursuant to the terms and conditions of his employment agreement. On August 8, 2000 the Oversight Committee of the Board of Directors voted to increase Mr. Loewenbaum's monthly compensation to \$15,000. On February 12, 2002, the Oversight Committee awarded Mr. Loewenbaum an option to purchase an additional 75,000 shares of our common stock at a price of \$11.75 per share. These options vest in equal annual installments over a three-year period. Effective November 17, 2002, Mr. Loewenbaum resigned as an employee.

During 2001, we used Mr. Loewenbaum's fractional share interest in a corporate airplane for trips to and from our locations in Valencia, Grand Junction and Austin. In addition, the airplane was used by Mr. Loewenbaum for trips to our Board meetings. The total amount paid to Mr. Loewenbaum during 2001 for this use was \$71,503.

In June 2000, we entered into a distribution agreement for ThermoJet printers with 3D Solid Solutions, which we refer to as 3DSS, a partnership in which Mr. Loewenbaum, the Chairman of our Board of Directors, is a limited partner. As of December 31, 2002, Solid Imaging Technologies, LLC, of which Mr. Loewenbaum is the sole member, was the general partner of 3DSS. In 2002, 3DSS paid us approximately \$84,000 for the purchase of products and services.

In 1998, we adopted under the 1996 Stock Incentive Plan the Executive Long-Term Stock Incentive Plan pursuant to which we offered loans to our executive officers of up to \$60,000 to purchase shares of the common stock reserved for issuance under the 1996 Plan. Charles W. Hull, our Executive Vice President, Chief Technology Officer, executed a promissory note for the principal amount of \$60,000 that bears interest at the rate of 6% per annum. The note is secured by the shares of common stock purchased. Subject to certain forgiveness provisions set forth below, all principal and accrued interest outstanding under the note becomes due and payable upon the earlier to occur of (i) a sale, transfer or other disposition of the shares of common stock securing the note; (ii) the termination of the executive's employment with us; (iii) the fifth anniversary of the execution of the note; (iv) the sale, lease or other disposition of all or substantially all of our assets to a single purchaser or group of related purchasers; (v) the sale, lease or other disposition, in one transaction or a series of related transactions of the majority of our outstanding capital stock; or (vi) our merger or consolidation into or with another corporation in which our stockholders will own less than 50% of the voting securities of the surviving corporation. If during a fiscal year ending before January 1, 2004, we report earnings per share of: (a) at least \$0.50 per share but less than \$1.00 per share, we will forgive 1/3 of the original principal amount of the note, or a smaller amount of principal

then outstanding, together with all of the interest accrued on the amount; (b) at least \$1.00 per share but less than \$1.50 per share, we will forgive 2/3 of the original principal amount of the note, or a smaller amount of principal then outstanding, together with all of the interest accrued on the amount; or (c) at least \$1.50 per share, we will forgive the entire original principal amount of the note, or a smaller amount of principal then outstanding, together with all interest accrued on the amount; provided, however, that the provisions of clauses (a) and (b) of this sentence shall be applicable to Mr. Hull only one time. For the fiscal year ended December 31, 2000, we earned \$0.63 per fully-diluted share; therefore, \$20,000 of the principal amount of Mr. Hull's loan was forgiven together with \$3,671 of interest.

Pursuant to a July 1990 Distribution Agreement with Vantico, Inc., successor to Ciba Specialty Chemicals, Inc., and subject to conditions set forth in the agreement, we have been Vantico's exclusive distributor (except in Japan) of all

photopolymers manufactured by Vantico for use in stereolithography. We purchased from Vantico resins valued at approximately \$183,815 net of product returns and applicable credits during fiscal 2002. Pursuant to a Settlement Agreement and Mutual General Releases dated March 19, 2002, the Distribution Agreement with Vantico terminated on April 22, 2002. In connection with the Settlement Agreement, Vantico paid us \$22,000,000 by transferring to us 1,550,000 shares of our stock. A related Research and Development Agreement terminated at the same time.

In 1990, 3D Systems, Inc. acquired the patents for stereolithography technology from UVP, Inc. in exchange for \$9,075,000, \$500,000 of which was paid in cash and \$350,000 by certain offsets. The balance of the purchase price (\$8,225,000) is payable based upon sales of stereolithography systems and licensing of the patents and subject to certain conditions. Pursuant to a 1987 contract between UVP and Charles W. Hull, our Executive Vice President, Chief Technology Officer and a director of ours, Mr. Hull is entitled to receive from UVP, with respect to his prior relationship with UVP, an amount equal to 10% of all royalties or other amounts received by UVP with respect to the patents, but only after recoupment of certain expenses by UVP. To date, Mr. Hull has received \$698,626 from UVP under that contract.

On May 5, 2003, we sold 2,634,016 shares of our Series B Convertible Preferred Stock for aggregate consideration of \$15.8 million. The Series B Convertible Preferred Stock accrues dividends at 8% per share and is convertible at any time into approximately 2,634,016 shares of common stock at a price of \$6.00 per common share. The stock is redeemable at our option after the third anniversary date. We are obligated to redeem any shares of Series B Convertible Preferred Stock outstanding at the tenth anniversary of the issuance date. The redemption price is \$6.00, plus accrued and unpaid dividends. Messrs. Loewenbaum, Service and Hull, our Chairman of the Board, Chief Executive Officer and Chief Technology Officer, respectively, purchased an aggregate of \$1,450,002 of the preferred shares. Additionally, Clark Partners I, L.P., a New York limited partnership, purchased \$5.0 million of the preferred shares. Kevin Moore, a member of our Board of Directors, is the president of the general partner of Clark Partners I, L.P. In connection with the offering, Houlihan Lokey Howard & Zukin rendered its opinion that the terms of the offering were fair to the Company from a financial point of view. A special committee of the Board of Directors, composed entirely of disinterested independent directors, approved the offer and sale of the preferred shares and recommended the transaction to the Board of Directors. The Board of Directors also approved the transaction, with interested Board members not participating in the vote.

Our Board of Directors believes, based on its reasonable judgment, but without further investigation, that the terms of each of the foregoing transactions or arrangements between us on the one hand and our affiliates, officers, directors or stockholders which were parties to the transactions on the other hand, were, on an overall basis, at least as favorable to 3D as could then have been obtained from unrelated parties.

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Item 14. Controls and Procedures

Deloitte and Touche, which we refer to in this Report as Deloitte, the Company's independent auditor, in connection with its audit of the Company's financial statements for fiscal year 2002, identified sales transactions for which revenue had been recognized in the fourth quarter of 2002, which Deloitte believed should be recognized in other periods. Deloitte brought these issues to the attention of management. Management immediately notified the Audit Committee of the Board of Directors.

In response, the Audit Committee, which is comprised entirely of independent directors, immediately commenced an investigation into the Company's revenue recognition policies generally, and specifically with regard to the sales transactions identified by Deloitte, and other related or similar transactions. To assist it in this investigation, the Audit Committee retained Morgan Lewis & Bockius, LLP, which we refer to in this Report as Morgan Lewis, as independent counsel, and Morgan Lewis retained the accounting firm of BDO Seidman, LLP, which we refer to in this Report as BDO, to provide forensic accounting services in support of its work. The investigation included a review of the accounts of the Company during the period from October 1, 2001 through December 31, 2002 to assess the revenue recognition policies applied to these transactions, whether these transactions were departures from the Company's stated revenue recognition policy and accounting principles generally accepted in the United States of America and the reasons for any departures.

During the conduct of the investigation and the audit of the Company's financial statements for 2002, deficiencies in the Company's internal controls were

identified relating to:

- . accounting policies and procedures;
- . personnel and their roles and responsibilities;

Deloitte has verbally advised the Audit Committee and management that these internal control deficiencies constitute reportable conditions and, collectively, a material weakness as defined in Statement of Auditing Standards No. 60. At the direction of the Audit Committee, the Company is implementing changes to its financial organization and enhancing its internal controls in response to BDO's conclusions. These changes include,

- . Retaining new management in senior finance and operations positions, and in many staff positions,
- . terminating or reassigning senior officers and key employees,
- . developing a comprehensive policies and procedures manual, including written procedures for sales order documentation and shipping and storage, that is accessible and understood by all employees,
- . establishing an internal audit function and retaining an internal audit director,
- . clarifying the Company's revenue recognition policies and introducing more formalized and frequent training of finance, sales and other staff,
- . communicating a zero tolerance policy for employees who engage in violations of the Company's accounting policies and procedures,
- . establishing an anonymous hotline for employees to report potential violations of policies and procedures or of applicable laws or regulations, and
- . additional management oversight and detailed reviews of personnel, disclosures and reporting.

The Company has not yet completed the implementation of all of the changes identified above. In order to prepare the Annual Report on Form 10-K reflecting the restated fiscal 2001 and 2000 results, this Report, and the Quarterly Report on Form 10-Q for the quarter ended March 28, 2003, the Company implemented interim alternative and additional control measures (the "Interim Measures") to ensure that the financial statements, and other financial information included in these reports, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in these reports.

Our management, including the Chief Executive Officer and our Principal Accounting Officer, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

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Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Evaluation of disclosure controls and procedures. During fiscal 2002, the Company formed a disclosure committee to assist the Chief Executive Officer and Principal Accounting Officer in fulfilling their responsibility in designing, establishing, maintaining and reviewing the Company's disclosure controls and procedures (the "Disclosure Committee"). The Disclosure Committee currently includes the Company's Chief Executive Officer, Principal Accounting Officer, General Counsel, Chief Technology Officer, Senior Vice President, Development

and Operations, Senior Vice President, Worldwide Revenue Generation . Within 90 days prior to the date of filing this report, the Company's Chief Executive Officer and Principal Accounting Officer, along with the other members of the Disclosure Committee, evaluated the Company's disclosure controls and procedures. The Company's Chief Executive Officer and Principal Accounting Officer have concluded that, with the application of the Interim Measures together with the other changes to its organization and controls implemented to date, the disclosure controls and procedures are sufficient to bring to their attention on a timely basis material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

Changes in internal controls. Since the date of the last quarterly filing, the Company is in the process of implementing the changes identified above, and has applied the Interim Measures, all of which are intended to increase the effectiveness of its control procedures. Other than the aforementioned items, there were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls.

Item 15. Principal Accountant Fees and Services

Audit and Non-Audit Fees

The following table presents fees billed for professional audit services rendered by Deloitte & Touche LLP for the audit of our annual financial statements for the years ended December 31, 2002, and December 31, 2001, and for other services rendered by Deloitte & Touche LLP during those periods:

	2002	2001
	-----	-----
	(amounts in thousands)	
Audit Fees (1)	\$ 660	\$ 289
Audit Related Fees (2)	35	28
Tax Fees (3)	458	210
All Other Fees (4)	-	33
	-----	-----
	\$ 1,153	\$ 560
	=====	=====

- (1) Audit fees consisted of audit work performed in the preparation of financial statements, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.
- (2) Audit related fees consist primarily of procedures related to registration statement filings and consultation on accounting standards.
- (3) Tax fees include all tax services relating to tax compliance, tax planning and reporting.
- (4) All other fees in 2001 consisted principally of services provided in connection with our acquisition of DTM Corporation.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

PART IV

Item 16. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) (1) Financial Statements

The following Consolidated Financial Statements, Financial Statement Schedule and Exhibits are filed as part of this filing as listed on page F-1 of this document.

- (a) (2) 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 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 January 8, 1996.
- 3.4 Certificate of Designations 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 Bylaws of Registrant. Incorporated by reference to Exhibit 3.2 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 4.1* 1989 Employee and Director Incentive Plan. Incorporated by reference to Exhibit 4.1 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 4.2* Form of Director Option Contract pursuant to the 1989 Employee and Director Incentive Plan. Incorporated by reference to Exhibit 4.2 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 4.3* Form of Officer Option Contract pursuant to the 1989 Employee and Director Incentive Plan. Incorporated by reference to Exhibit 4.3 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 4.4* Form of Employee Option Contract pursuant to the 1989 Employee and Director Incentive Plan. Incorporated by reference to Exhibit 4.4 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 4.5 3D Systems Corporation 1996 Stock Incentive Plan. Incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement filed on March 30, 2001.
- 4.6* Form of Incentive Stock Option Contract for Executives pursuant to the 1996 Stock Incentive Plan. Incorporated by reference to Exhibit 4.6 of Registrant's Form 10-K for the year ended December 31, 2000.
- 4.7* Form of Non-Statutory Stock Option Contract for Executives pursuant to the 1996 Stock Incentive Plan. Incorporated by reference to Exhibit 4.7 of Registrant's Form 10-K for the year ended December 31, 2000.
- 4.8* Form of Employee Incentive Stock Option Contract pursuant to the 1996 Stock Incentive Plan. Incorporated by reference to Exhibit 4.8 of Registrant's Form 10-K for the year ended December 31, 1999.
- 4.9* Form of Employee Non-Statutory Stock Option Contract pursuant to the 1996 Stock Incentive Plan.

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Incorporated by reference to Exhibit 4.9 of Registrant's Form 10-K for the year ended December 31, 1999.
- 4.10* 3D Systems Corporation 1996 Non-Employee Directors' Stock Option Plan. Incorporated by reference to Appendix B to Registrant's Definitive Proxy Statement filed on March 30, 2001.
- 4.11* Form of Director Option Contract pursuant to the 1996 Non-Employee Director Stock Option Plan. Incorporated by reference to Exhibit 4.5 of Registrant's Form 10-K for the year ended December 31, 1999.
- 4.12 3D Systems Corporation 1998 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form S-8 filed on July 10, 1998.
- 4.13 3D Systems Corporation 2001 Stock Option Plan. Incorporated by reference to Exhibit 10.1 to Registrant's Registration Statement on

- 10.1 Lease dated as of July 12, 1988, by and between 3D Systems, Inc. and Valencia Tech Associates. Incorporated by reference to Exhibit 3.1 to 3-D Canada's Annual Report on Form 20-F for the year ended December 31, 1987 (Reg. No. 0-16333).
- 10.2 Third Amendment to Lease dated as of August 27, 2002 by and between Katell Valencia Associates, a California limited partnership and 3D Systems, Inc., a California corporation.
- 10.3 Amendment No. 1 to Lease Agreement between 3D Systems, Inc. and Katell Valencia Associates, a California limited partnership, dated May 28, 1993. Incorporated by reference to Exhibit 10.2 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 10.4 Agreement dated as of July 19, 1988, by and among 3D Systems, Inc., UVP, Cubital, Ltd. and Scitex Corporation Ltd. Incorporated by reference to Exhibit 3.10 to 3-D Canada's Annual Report on Form 20-F for the year ended December 31, 1987 (Reg. No. 0-16333).
- 10.5 Patent Purchase Agreement dated January 5, 1990 by and between 3D Systems, Inc. and UVP. Incorporated by reference to Exhibit 10.28 to 3-D Canada's Registration Statement on Form S-1 (Reg. No. 33-31789).
- 10.6 Security Agreement dated as of the 5th day of January, 1990 by and between UVP and 3D Systems, Inc. relating to security interest in UVP Patent. Incorporated by reference to Exhibit 10.29 to 3-D Canada's Registration Statement on Form S-1 (Reg. No. 33-31789).
- 10.7 Assignment of UVP Patent dated January 12, 1990 by UVP to 3D Inc. Incorporated by reference to Exhibit 10.30 to 3-D Canada's Registration Statement on Form S-1 (Reg. No. 33-31789).
- 10.8 Form of Indemnification Agreement between Registrant and certain of its executive officers and directors. Incorporated by reference to Exhibit 10.18 to Form 8-B filed August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.
- 10.9 Agreement dated October 4, 1995 between Registrant and Mesa County Economic Development Council, Inc., a Colorado non-profit corporation. Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 29, 1995, filed on November 13, 1995.
- 10.10 Retainer Agreement effective September 9, 1999 between Registrant and Regent Pacific Management Corporation. Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed on February 23, 2000.
- 10.11 Patent License Agreement dated December 16, 1998 by and between 3D Systems, Inc., NTT Data CMET, Inc. and NTT Data Corporation. Incorporated by reference to Exhibit 10.56 to Form 10-K for the year ended December 31, 1998.
- 10.12 Stock Option Agreement dated May 20, 1999 between Registrant and Arthur B. Sims. Incorporated

by reference to Exhibit 10.54 to Form 10-K for the year ended December 31, 1999, filed on March 30, 2000.

- 10.13 Amendment to Retainer Agreement effective August 8, 2000 between Registrant and Regent Pacific Management Corporation. Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q for the third quarter of 2000, filed on November 9, 2000.
- 10.14 Amendment dated August 27, 1998 to R&D Agreement of July 1, 1990 between Registrant and Ciba-Geigy Limited. Incorporated by reference to Exhibit 10.41 of Registrant's Form 10-K for the year ended December 31, 2000.
- 10.15 Termination Agreement dated July 21, 2000, between 3D Systems Corporation, a California Corporation, Charles W. Hull ("Hull"), as Founders' Agent pursuant to the Shareholders Agreement and Ciba Specialty Chemicals Canada Inc., a Canadian corporation ("Ciba Canada"), terminating the Shareholders' Agreement, dated April 10, 1991, among 1726 Holdings Ltd., a British Columbia corporation

("1726"), Lionheart Capital Corp., a British Columbia corporation ("Lionheart"), 3-D Canada, and Raymond S. Freed, Charles W. Hull, Bethany Griffiths, Virginia Hiramatsu, Paul B. Warren and Edwin J. Kaftal (Freed, Hull, Griffiths, Hiramatsu, Warren and Kaftal are collectively referred to as the "Founders"), dated as of May 5, 1993, by and among 1726, Lionheart, 3-D Canada, the Founders and Registrant. Incorporated by reference to Exhibit 10.42 of Registrant's Form 10-K for the year ended December 31, 2000.

- 10.16 Agreement and Plan of Merger by and among Registrant, Tiger Deals, Inc., a Delaware corporation, and DTM Corporation, a Texas corporation. Incorporated by reference to Form 8-K, filed April 2, 2001.
 - 10.17 Amendment to Employment Agreement effective October 30, 2001 between Registrant and Gary J. Sbona. Incorporated by reference to Exhibit 10.44 of Registrant's Form 10-K for the year ended December 31, 2001, filed on March 27, 2002.
 - 10.18 Agreement effective October 30, 2001 between Registrant and Regent Pacific Management Corporation. Incorporated by reference to Exhibit 10.45 of Registrant's Form 10-K for the year ended December 31, 2001, filed on March 27, 2002.
 - 10.19 Employment Agreement for Brian Service dated October 15, 2002. Incorporated by reference to Exhibit 10.9 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
 - 10.20* Consulting Agreement for Brian Service dated November 18, 2002.
 - 10.21 Debenture Purchase Agreement dated as of December 19, 2001, by and among Registrant and the purchasers listed on Schedule I thereto.
 - 10.22 Rights Agreement dated as of December 4, 1995, between Registrant and U.S. Stock Transfer Corporation, as Rights Agent. Incorporated by reference to Exhibit 1 to Registrant's Registration Statement on Form 8-A filed January 8, 1996.
 - 10.23* Stock Option Agreement dated July 1, 1999, between Registrant and G. Walter Loewenbaum II. Incorporated by reference to Exhibit 10.1 to Registrant's Registration Statement on Form S-8 filed on March 4, 2002.
 - 10.24* Stock Option Agreement dated September 9, 1999, between Registrant and Gary J. Sbona. Incorporated by reference to Exhibit 10.2 to Registrant's Registration Statement on Form S-8 filed on March 4, 2002.
 - 10.25* Stock Option Agreement dated May 20, 1999, between Registrant and Arthur B. Sims. Incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form S-8 filed on March 4, 2002.
 - 10.26 Intentionally omitted.
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- 10.27 Amendment Agreement Number One to Loan and Security Agreement dated July 26, 2001. Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
 - 10.28 Amendment Agreement Number Two to Loan and Security Agreement dated August 16, 2001. Incorporated by reference to Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
 - 10.29 Amendment Agreement Number Three to Loan and Security Agreement dated October 1, 2001. Incorporated by reference to Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
 - 10.30 Amendment Agreement Number Four to Loan and Security Agreement dated November 1, 2001. Incorporated by reference to Exhibit 10.4 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
 - 10.31 Amendment Agreement Number Five to Loan and Security Agreement dated December 20, 2001. Incorporated by reference to Exhibit 10.5 to

Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.

- 10.32 Amendment Agreement Number Six to Loan and Security Agreement dated August 30, 2002. Incorporated by reference to Exhibit 10.6 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
- 10.33 Amendment Agreement Number Seven to Loan and Security Agreement dated October 1, 2002. Incorporated by reference to Exhibit 10.7 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
- 10.34 Amendment Agreement Number Eight to Loan and Security Agreement dated November 12, 2002. Incorporated by reference to Exhibit 10.8 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
- 10.35 Sixth Amendment to Reimbursement Agreement dated November 8, 2002. Incorporated by reference to Exhibit 10.10 to Registrant's Form 10-Q for the quarterly period ended September 27, 2002, filed on November 12, 2002.
- 10.36 Form of Securities Purchase Agreement. Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed on May 7, 2003.
- 10.37 Waiver Agreement Number Two, dated as of May 1, 2003, between and among U.S. Bank National Association, Registrant, and 3D Holdings, LLC. Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed on May 7, 2003.
- 10.38* Employment Agreement dated March 1, 1994, by and among Registrant, 3D Systems, Inc., a California corporation and Charles W. Hull. Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended July 1, 1994, filed on August 9, 1994.
- 16.1 Letter, dated April 23, 2003, from Deloitte & Touche LLP to the Securities and Exchange Commission. Incorporated by reference to Exhibit 16.1 to Registrant's Current Report on Form 8-K, filed on April 23, 2003.
- 16.2 Letter, dated April 29, 2003, from Deloitte & Touche LLP to the Securities and Exchange Commission. Incorporated by reference to Exhibit 16.1 to Registrant's Current Report on Form 8-K, filed on April 30, 2003.
- 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Independent Auditors - Deloitte & Touche LLP.
- 99.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated June 30, 2003.

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- 99.2 Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated June 30, 2003.

(b) Reports on Form 8-K

Current Report on Form 8-K, reporting under Items 5 and 7, filed October 25, 2002.

* Management contract or compensatory plan or arrangement

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AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
3D Systems Corporation
Valencia, California

We have audited the accompanying consolidated balance sheets of 3D Systems Corporation and its subsidiaries (the "Company") as of December 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity, cash flows and comprehensive (loss) income for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of 3D Systems Corporation and its subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the year ended December 31, 2002 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations, working capital deficiency and accumulated deficit raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 24, the accompanying 2001 and 2000 financial statements have been restated.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Los Angeles, California
June 20, 2003

3D SYSTEMS CORPORATION
Consolidated Balance Sheets
As of December 31, 2002 and 2001

ASSETS	2002	(See Note 24)
	-----	-----
	(in thousands, except par value)	
Current assets:		
Cash and cash equivalents	\$ 2,279	\$ 5,948
Accounts receivable, net of allowance for doubtful accounts of \$3,068 (2002) and \$1,755 (2001)	27,420	36,262
Current portion of lease receivables	322	498
Inventories	12,564	18,546
Deferred income taxes	---	5,271
Prepaid expenses and other current assets	3,687	2,817
	-----	-----
Total current assets	46,272	69,342
Property and equipment, net	15,339	17,864
Licenses and patent costs, net	14,960	12,314
Deferred income taxes	---	6,750
Lease receivables, less current portion and net of allowance of \$414 (2002) and \$247 (2001)	553	1,750
Acquired technology, net	7,647	9,192
Goodwill	44,456	44,158
Other assets, net	3,006	3,572
	-----	-----
	\$ 132,233	\$ 164,942
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 2,450	\$ 6,151
Accounts payable	10,830	12,819
Accrued liabilities	15,529	15,608
Current portion of long-term debt	10,500	3,135
Customer deposits	801	1,624
Deferred revenues	14,770	13,997
	-----	-----
Total current liabilities	54,880	53,334
Deferred tax liabilities	---	4,210
Other liabilities	3,397	3,329
Long-term debt, less current portion	4,090	16,240
Subordinated debt	10,000	9,400
	-----	-----
	72,367	86,513
	-----	-----
Commitments and contingencies (Note 20)	---	---
Stockholders' equity:		
Preferred stock, authorized 5,000 shares; none issued	---	---
Common stock, \$.001 par value, authorized 25,000 shares; issued and outstanding 12,725 (2002); and issued 13,357 and outstanding 13,132 (2001)	13	13
Capital in excess of par value	84,931	93,173
Notes receivable from officers and employees	(59)	(244)
Accumulated deficit	(21,419)	(6,553)
Accumulated other comprehensive loss	(3,600)	(6,420)
Treasury stock, 225 shares (2001) at cost	---	(1,540)
	-----	-----
Total stockholders' equity	59,866	78,429
	-----	-----
	\$ 132,233	\$ 164,942
	=====	=====

See accompanying notes to consolidated financial statements.

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3D Systems Corporation
Consolidated Statements of Operations
Years ended December 31, 2002, 2001 and 2000

	2002	2001 As Restated (See note 24)	2000 As Restated (See note 24)
	-----	-----	-----
	(in thousands, except per share amounts)		
Sales:			
Products	\$ 81,039	\$ 84,558	\$ 79,857
Services	34,922	34,182	29,429
	-----	-----	-----
Total sales	115,961	118,740	109,286
	-----	-----	-----
Cost of sales:			
Products	43,398	42,278	34,969
Services	25,942	24,961	21,729
	-----	-----	-----
Total cost of sales	69,340	67,239	56,698
	-----	-----	-----
Gross profit	46,621	51,501	52,588
	-----	-----	-----
Operating expenses:			
Selling, general and administrative	48,331	42,807	32,710
Research and development	15,366	11,010	7,814
Severance and other restructuring costs	4,354	---	---
	-----	-----	-----
Total operating expenses	68,051	53,817	40,524
	-----	-----	-----

(Loss) income from operations	(21,430)	(2,316)	12,064
Interest and other (expense) income, net	(2,991)	(1,033)	115
Gain on arbitration settlement	18,464	---	---
(Loss) income before income taxes	(5,957)	(3,349)	12,179
Provision for (benefit from) income taxes	8,909	(992)	4,309
Net (loss) income	\$ (14,866)	\$ (2,357)	\$ 7,870
Shares used to calculate basic net (loss) income per share	12,837	12,579	11,851
Basic net (loss) income per share	\$ (1.16)	\$ (0.19)	\$ 0.66
Shares used to calculate diluted net (loss) income per share	12,837	12,579	12,889
Diluted net (loss) income per share	\$ (1.16)	\$ (0.19)	\$ 0.61

See accompanying notes to consolidated financial statements.

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3D Systems Corporation
Consolidated Statements of Stockholders' Equity
Years ended December 31, 2002, 2001 and 2000

	Common Stock Shares	Par Value \$0.001	Capital in Excess of Par Value	Notes Receivable From Officers And Employees	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
(in thousands)								
Balance at January 1, 2000	11,433	\$ 12	\$ 75,064	\$ (240)	\$ (12,066)	\$ (1,622)	\$ (1,540)	\$ 59,608
Exercise of stock options	779	(a)	4,848	---	---	---	---	4,848
Shares exchanged in option exercise	(39)	(a)	(669)	---	---	---	---	(669)
Exercise of stock warrants	5	(a)	29	---	---	---	---	29
Employee stock purchase plan	20	(a)	191	---	---	---	---	191
Forgiveness of officer loans	---	---	7	40	---	---	---	47
Employee stock loans	---	---	---	(250)	---	---	---	(250)
Repayment of officer loans	---	---	---	120	---	---	---	120
Tax benefit related to stock option exercises	---	---	2,046	---	---	---	---	2,046
Stock-based compensation	---	---	52	---	---	---	---	52
Net income (As restated, see note 24)	---	---	---	---	7,870	---	---	7,870
Cumulative translation adjustment	---	---	---	---	---	(2,370)	---	(2,370)
Balance at December 31, 2000 (As restated, see note 24)	12,198	12	81,568	(330)	(4,196)	(3,992)	(1,540)	71,522
Exercise of stock options	294	(a)	2,127	--	--	--	--	2,127
Private placement	617	(a)	8,021	--	--	--	--	8,021
Employee stock purchase plan	23	1	242	--	--	--	--	243
Repayment of officer loans	--	--	--	86	--	--	--	86
Tax benefit related to stock option exercises	--	--	1,215	--	--	--	--	1,215
Net loss (As restated, see note 24)	--	--	--	--	(2,357)	--	--	(2,357)
Cumulative translation adjustment	--	--	--	--	--	(2,428)	--	(2,428)
Balance at December 31, 2001 (As restated, see note 24)	13,132	13	93,173	(244)	(6,553)	(6,420)	(1,540)	78,429
Exercise of stock options	117	(a)	850	---	---	---	---	850
Employee stock purchase plan	26	(a)	202	---	---	---	---	202
Private placement, net	1,000	1	12,491	---	---	---	---	12,492
Vantico settlement	(1,550)	(1)	(20,309)	---	---	---	---	(20,310)
Repayment of officer loans	---	---	---	185	---	---	---	185
Issuance of warrants	---	---	64	---	---	---	---	64
Retirement of treasury shares	---	---	(1,540)	---	---	---	1,540	---
Net loss	---	---	---	---	(14,866)	---	---	(14,866)
Cumulative translation adjustment	---	---	---	---	---	2,820	---	2,820

Balance at December 31, 2002	12,725	\$ 13	\$ 84,931	\$ (59)	\$ (21,419)	\$ (3,600)	\$ ---	\$ 59,866
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(a) Amounts not shown due to rounding

See accompanying notes to consolidated financial statements.

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3D Systems Corporation
Consolidated Statements of Cash Flows
Years ended December 31, 2002, 2001 and 2000

Cash flows from operating activities:	2002	2001	2000
		As Restated See note 24	As Restated See note 24
		(in thousands)	
Net (loss) income	\$ (14,866)	\$ (2,357)	\$ 7,870
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Deferred income taxes	7,813	(1,882)	1,979
Gain on arbitration settlement (including \$1,846 included in S,GA for legal reimbursement)	(20,310)	--	--
Depreciation and amortization	9,902	7,704	6,245
Forgiveness of officer loan	--	--	47
Tax benefit related to stock option exercises	--	1,215	2,046
Stock-based compensation	64	--	52
Loss on disposition of property and equipment	263	834	--
Changes in operating accounts, excluding effects of acquisitions:			
Accounts receivable	11,466	753	(7,105)
Lease receivables	1,373	2,927	(2,083)
Inventories	7,088	(2,655)	(7,079)
Prepaid expenses and other current assets	(612)	1,849	(1,520)
Other assets	486	(186)	(2,523)
Accounts payable	(2,575)	2,096	2,536
Accrued liabilities	2,067	(2,324)	548
Customer deposits	(824)	409	745
Deferred revenues	88	161	4,799
Other liabilities	(109)	(1,895)	(1,431)
Net cash provided by operating activities	1,314	6,649	5,126
Cash flows from investing activities:			
Purchase of property and equipment	(3,210)	(3,317)	(4,893)
Proceeds on disposition of property and equipment	602	--	2,958
Additions to licenses and patent costs	(4,724)	(1,173)	(368)
Disposition of licenses and patents	--	--	101
Software development costs	(364)	(489)	(442)
Investment in DTM	(138)	(49,551)	--
Investment in RPC	(1,981)	(2,171)	--
Investment in OptoForm SAREL	(1,200)	(1,387)	--
Net cash used for investing activities	(11,015)	(58,088)	(2,644)
Cash flows from financing activities:			
Exercise of stock options and stock purchase plan	1,052	2,369	4,399
Employee loans for stock option exercises	--	--	(250)
Borrowings	44,564	53,492	--
Repayment of long-term debt	(52,450)	(23,061)	(110)
Repayment of notes receivable from officers and employees	185	86	120
Proceeds from sale of stock	12,492	8,021	--
Net cash provided by financing activities	5,843	40,907	4,159
Effect of exchange rate changes on cash	189	(2,519)	(195)
Net (decrease) increase in cash and cash equivalents	(3,669)	(13,051)	6,446
Cash and cash equivalents at the beginning of the period	5,948	18,999	12,553
Cash and cash equivalents at the end of the period	\$ 2,279	\$ 5,948	\$ 18,999
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 1,918	\$ 764	\$ 180
Income taxes	\$ 732	\$ 903	\$ 97

See accompanying notes to consolidated financial statements.

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3D Systems Corporation
Consolidated Statements of Cash Flows
Years ended December 31, 2002, 2001 and 2000
(in thousands)

Supplemental schedule of non cash investing activities:

On August 24, 2001, the Company acquired DTM Corporation ("DTM") for \$44.6 million in cash, plus \$4.9 million in acquisition costs. In conjunction with the merger, the following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition as follows:

Fair value of tangible assets acquired	\$ 14,643
Fair value of goodwill and other identifiable intangible assets	49,332
Purchase price	(49,551)
	=====
Liabilities assumed	\$ 14,424
	=====

In conjunction with the acquisitions of OptoForm (February 2001) and RPC (September 2001), the Company recorded current liabilities of \$1.2 million and \$2.0 million, respectively, which were paid in 2002. In connection with the RPC acquisition, the Company is carrying a \$1.6 million current liability, at December 31, 2002, related to payments due to RPC shareholders in September 2003.

In 2002, 2001 and 2000, the Company transferred \$4.8 million, \$4.7 million and \$2.2 million, respectively of property and equipment from inventories to fixed assets. Additionally, \$5.9 million, \$1.6 million and \$2.9 million of property and equipment was transferred from fixed assets to inventories in 2002, 2001 and 2000, respectively.

In conjunction with the \$22 million arbitration settlement with Vantico, which was settled through the return of shares to the Company, the Company allocated \$1.7 million to a put option which is included as an addition to stockholders' equity in 2002.

See accompanying notes to consolidated financial statements.

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3D Systems Corporation
Consolidated Statements of Comprehensive (Loss) Income
Years ended December 31, 2002, 2001 and 2000

	2002	2001 As restated (see note 24)	2000 As restated (see note 24)
	-----	-----	-----
	(in thousands)		
Net (loss) income	\$ (14,866)	\$ (2,357)	\$ 7,870
Other comprehensive (loss) income:			
Foreign currency translation adjustments	2,820	(2,428)	(2,370)
Comprehensive (loss) income	\$ (12,046)	\$ (4,785)	\$ 5,500
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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3D Systems Corporation
Notes to Consolidated Financial Statements
Years ended December 31, 2002, 2001 and 2000

(1) Going Concern

The consolidated financial statements for the year ended December 31, 2002 have been prepared assuming the Company will continue as a going concern. The Company incurred operating losses totaling \$21.4 million and \$2.3 million for the years ended December 31, 2002 and 2001, respectively. In addition, the Company has a working capital deficit of \$8.6 million and an accumulated deficit of \$21.4 million at December 31, 2002. These factors among others raise substantial doubt about the Company's ability to continue as a going concern.

Management's plans include raising additional debt and equity financing. In May 2003, the Company sold approximately 2.6 million shares of its Series B Convertible Preferred Stock for aggregate consideration of \$15.8 million (Note 23 -Preferred Stock).

Subsequently, on May 5, 2003 the Company repaid the US Bank term loan balance of \$9.6 million (Note 14 - Borrowings).

Management intends to obtain debt financing to replace the US Bank financing and currently has a proposal from Congress Financial to provide a secured revolving credit facility of up to \$20 million. Additionally, management intends to pursue a program to increase margins and continue cost saving programs. However, there is no assurance that the Company will succeed in accomplishing any or all of these initiatives.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

(2) Basis of Presentation

The Company reports its interim financial information on a 13-week basis ending the last Friday of each quarter, and reports its annual financial information through the calendar year ended December 31. The consolidated financial statements include the accounts of 3D Systems Corporation and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

(3) Significant Accounting Policies

(a) Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 will not have a material impact on the Company's results of operations or financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure", which amended SFAS No. 123, "Accounting for Stock-Based Compensation." The new standard provides alternative methods of transition for a voluntary change to the fair market value based method for accounting for stock-based employee compensation. Additionally, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. In compliance with SFAS No. 123, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by Accounting Principles Board ("APB") Opinion No. 25 and has made the applicable disclosures later in this Note.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards on the classification and

measurement of financial instruments with characteristics of both liabilities and equity. SFAS No. 150 will become effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective for the first interim period beginning after June 15, 2003. The Company is in the process of assessing the effect of SFAS No. 150 and does not expect the implementation of the pronouncement to have a material effect on its financial condition or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing the guarantee. The Company will apply FIN 45 to guarantees, if any, issued after December 31, 2002. The Company has not yet evaluated the financial statement impact of the adoption of FIN 45. FIN 45 also requires guarantors to disclose certain information for guarantees, beginning December 31, 2002. These financial statements contain the required disclosures.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires an investor with a majority of the variable interests in a variable interest entity to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A variable interest entity is an entity in which the equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from other parties. The Company does not expect to identify any variable interest entities that must be consolidated.

(b) Revenue Recognition

Revenues from the sale of systems and related products are recognized upon shipment, provided that both title and risk of loss have passed to the customer and collection is reasonably assured. Some sales transactions are bundled and include equipment, software license, warranty, training and installation. The Company allocates and records revenue in these transactions based on vendor specific objective evidence that has been accumulated through historic operations. The process of allocating the revenue involves some management judgments. Revenues from services are recognized at the time of performance. We provide end users with maintenance under a warranty agreement for up to one year and defer a portion of the revenues at the time of sale based on the relative fair value of those services. After the initial warranty period, we offer these customers optional maintenance contracts; revenue related to these contracts is deferred and recognized ratably over the period of the contract. Our warranty costs were \$4.6 million, \$4.2 million and \$3.8 million, for the years ended December 31, 2002, 2001 and 2000, respectively. The Company's systems are sold with software products that are integral to the operation of the systems. These software products are not sold separately.

Certain of the Company's sales were made through a sales agent to customers where substantial uncertainty exists with respect to collection of the sales price. The substantial uncertainty is generally a result of the absence of a history of doing business with the customer and uncertain political environment in the country in which the customer does business. For these sales, the Company records revenues based on the cost recovery method, which requires that the sales proceeds received are first applied to the carrying amount of the asset sold until the carrying amount has been recovered, thereafter, all proceeds are credited to sales.

Credit is extended based on an evaluation of each customer's financial condition. To reduce credit risk in connection with systems sales the Company may, depending upon the circumstances, require significant deposits prior to shipment and may retain a security interest in the system until fully paid. The Company often requires international customers to furnish letters of credit.

(c) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The carrying value of these instruments approximates market value because of their short maturity.

The Company invests its excess cash in interest-bearing deposits with major banks and money market funds. Although a majority of the cash accounts exceed the federally insured deposit amount, management does not anticipate non-performance

by the financial institutions. Management reviews the stability of these institutions on a periodic basis.

(d) Allowance for Doubtful Accounts

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The Company's estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations (for example, bankruptcy). In these cases, the Company uses its judgment, based on the available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a reserve is established for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change (for example, the Company experiences higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligation to the Company), estimates of the recoverability of amounts due to the Company could be reduced by a material amount.

(e) Leases

At the inception of a lease, the gross lease receivable, the reserve for potential losses, the estimated residual value of the leased equipment and the unearned lease income are recorded. The unearned lease income represents the excess of the gross lease receivable plus the estimated residual value over the cost of the equipment leased and is recorded as deferred revenues.

(f) Inventories

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method. Reserves for slow moving and obsolete inventories are provided based on historical experience and current product demand. The Company evaluates the adequacy of these reserves quarterly. The reserve for slow moving and obsolete inventory was \$1,876 and \$1,618 at December 31, 2002 and 2001, respectively. Inventories consigned to a sales agent at December 31, 2002 and 2001 were \$0.2 million and \$0.1 million, respectively.

(g) Property and Equipment

Property and equipment are carried at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to thirty years. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives, or the lives of the leases, whichever is shorter. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in results of operations. Repair and maintenance charges are expensed as incurred.

(h) Goodwill and Intangible Assets

The Company has applied Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" in its allocation of the purchase price of DTM Corporation (DTM) and RPC Ltd. (RPC). The annual impairment testing required by SFAS No. 142, "Goodwill and Other Intangible Assets" requires the Company to use its judgment and could require the Company to write-down the carrying value of its goodwill and other intangible assets in future periods. SFAS No. 142 requires companies to allocate their goodwill to identifiable reporting units, which are then tested for impairment using a two-step process detailed in the statement. The first step requires comparing the fair value of each reporting unit with its carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is

not necessary and there are no impairment issues. If that fair value does not exceed that carrying amount, companies must perform the second step that requires an allocation of the fair value of the reporting unit to all assets and liabilities of that unit as if the reporting unit had been acquired in a purchase business combination and the fair value of the reporting unit was the purchase price. The goodwill resulting from that purchase price allocation is then compared to its carrying amount with any excess recorded as an impairment charge.

Upon implementation of SFAS No. 142 in January 2002 and in the fourth quarter of 2002, the Company concluded that the fair value of the Company's reporting units exceeded their carrying values and accordingly, as of those dates, there were no goodwill impairment issues. The Company is required to perform a valuation of its reporting units annually in the fourth quarter, or upon significant changes in the Company's business environment.

(i) Licenses and Patent Costs

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Licenses and patent costs are being amortized on a straight-line basis over their estimated useful lives, which are approximately eight to seventeen-years, or on a units-of-production basis, depending on the nature of the license or patent.

(j) Long-Lived Assets

The Company evaluates long-lived assets other than goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

(k) Capitalized Software Costs

Certain software development and production costs are capitalized upon a product's reaching technological feasibility. Costs capitalized in 2002, 2001 and 2000 were \$364,000, \$489,000 and \$442,000, respectively. Amortization of software development costs begins when the related products are available for sale. Amortization expense amounted to \$452,000, \$467,000 and \$457,000 for 2002, 2001 and 2000, respectively, based on the straight-line method using estimated useful lives of two years. Net capitalized costs aggregated \$414,000 and \$502,000 at December 31, 2002 and 2001, respectively, and are included in other assets in the accompanying consolidated balance sheets.

(l) Contingencies

The Company accounts for contingencies in accordance with SFAS No. 5, "Accounting for Contingencies". SFAS No. 5 requires that the Company record an estimated loss from a loss contingency when information available prior to issuance of the Company's financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as litigation requires the Company to use its judgment. The Company cannot reasonably estimate the costs arising from its contingencies. However, management believes the ultimate outcome of these matters will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

(m) Foreign Currency Translation

The Company uses derivative instruments to manage exposure to foreign currency risk. International sales are made primarily from the Company's foreign sales subsidiaries in their respective countries and are denominated in United States dollars or the local currency of each country. The Company's exposure to foreign exchange rate fluctuations arises in part

from inter-company accounts in which costs incurred in the United States are charged to our foreign sales subsidiaries. These inter-company accounts are denominated in United States dollars. The Company manages selected exposures through financial market transactions in the form of foreign exchange forward and put option contracts. The Company does not enter into derivative contracts for speculative purposes. The Company does not hedge its foreign currency exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on its consolidated net (loss) income.

The Company had no derivative contracts in place on December 31, 2002. The notional amount covered by all of our put option contracts was \$8.5 million at December 31, 2001. The put options were related to transactions denominated in Euros and Pounds Sterling, with settlement dates in January and February 2002. The premium paid for the put options was \$144,000 in 2001, and the market value was approximately \$8,000 at December 31, 2001.

The effect of the unrealized exchange rate fluctuations on translating foreign currency assets and liabilities into United States dollars is accumulated as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in current operations. The aggregate foreign currency exchange gains (losses) included in cost of sales were \$640,000, \$(227,000) and \$162,000 for 2002, 2001 and 2000, respectively. The aggregate foreign exchange losses included in other expense in 2002 was \$255,000. No foreign exchange gains or losses were included in other (expense) income in 2001 or 2000.

(n) Research and Development Costs

Research and development costs are expensed as incurred.

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(o) Earnings Per Share

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of shares of common stock outstanding during the period. Diluted net (loss) income per share is computed by dividing net (loss) income by the weighted average number of shares of common stock outstanding plus the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued. Common shares related to stock options and stock warrants are excluded from the computation when their effect is anti-dilutive.

(p) Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were approximately \$2.3 million, \$2.1 million and \$1.7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(q) Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to the allowance for doubtful accounts, income taxes, inventories, goodwill and intangible assets, contingencies and revenue recognition. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(r) Stock Option Plans

The Company has employee stock benefit plans, which are described more fully in "Note 15: Stockholders' Equity and Stockholders' Rights Plan." The Company's stock option plans are accounted for under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As the exercise price of all options granted under these plans was equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost is recognized in net income.

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure," the following pro forma net income and earnings per share information is presented as if the Company accounted for stock-based compensation awarded under the stock incentive plans using the fair value method. Under the fair value method, the estimated fair value of stock incentive awards is charged against income on a straight-line basis over the vesting period.

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	2002	2001	2000
	-----	-----	-----
Net (loss) income, as reported	\$ (14,866)	\$ (2,357)	\$ 7,870
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 based method for all awards, net of related tax effects	5,806	3,859	646
	-----	-----	-----
Pro forma net (loss) earnings	\$ (20,672)	\$ (6,216)	\$ 7,224
	=====	=====	=====
Basic net earnings per common share:			
As reported	\$ (1.16)	\$ (0.19)	\$ 0.66
	=====	=====	=====
Pro forma	\$ (1.61)	\$ (0.49)	\$ 0.61
	=====	=====	=====
Diluted net earnings per common share:			
As reported	\$ (1.16)	\$ (0.19)	\$ 0.61
	=====	=====	=====
Pro forma	\$ (1.61)	\$ (0.49)	\$ 0.56
	=====	=====	=====

(s) Income Taxes

Deferred income tax assets and liabilities are computed annually for the difference between the financial statement and income statement basis of assets and liabilities. Such deferred income tax assets and liability computation are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. A valuation allowance is provided, when necessary, to reduce deferred tax assets to the amount expected to be realized.

(t) Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, accounts receivable, lease receivables, accounts payable, line of credit, term loan and industrial development bond are carried at cost, which approximates their fair value, because of the short-term maturity of these instruments and interest on long-term borrowings vary with the market. The fair value of the Company's subordinated debt is estimated to be \$8.6 million at December 31, 2002 (see Note 14).

(4) Leases

The Company provides lease financing for qualified customers. The leases are accounted for as sales-type leases where the present value of minimum lease payments, net of costs, are recorded as sales. The components of lease receivables at December 31, 2002 and 2001 are as

follows:

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	2002	2001
	-----	-----
	(in thousands)	
Total minimum lease payment receivable	\$ 696	\$ 1,331
Estimated unguaranteed residual value	179	917
	-----	-----
Gross investment in leases	875	2,248
Unearned income	(142)	(548)
	-----	-----
Total investment in leases	\$ 733	\$ 1,700
	=====	=====
Short-term interest in leases	\$ 277	\$ 11
Long-term interest in leases	\$ 456	\$ 1,689

Future minimum lease payments to be received as of December 31, 2002 are as follows:

	(in thousands)	
2003	\$	322
2004		251
2005		63
2006		60

	\$	696
		=====

In 2001, lease receivables totaling \$3.3 million were sold to an outside party. No gain or loss was recognized on the transaction. The terms of the sale required the Company to guarantee to the purchaser certain cash payments in the event of default on those receivables. At December 31, 2002, the Company has fully reserved for the maximum amount of payments under the guarantee of approximately \$383,000.

(5) Inventories

Components of inventories at December 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(in thousands)	
Raw materials	\$ 2,617	\$ 2,397
Work in process	196	759
Finished goods	9,751	15,390
	-----	-----
	\$ 12,564	\$ 18,546
	=====	=====

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(6) Property and Equipment

Property and equipment at December 31, 2002 and 2001 are summarized as follows:

	2002	2001	Useful Life (in years)
	-----	-----	-----
	(in thousands)		
Land	\$ 435	\$ 435	--
Building	4,202	4,202	30
Machinery and equipment	26,984	26,259	3-5
Office furniture and equipment	3,597	3,183	5
Leasehold improvements	4,137	3,323	Life of Lease
Rental equipment	1,189	1,015	5
Construction in progress	206	925	N/A
	-----	-----	
	40,750	39,342	
Less: Accumulated depreciation	(25,411)	(21,478)	

\$	15,339	\$	17,864
=====		=====	

Depreciation expense for 2002, 2001 and 2000 was \$5.8 million, \$4.8 million and \$3.9 million, respectively.

(7) Licenses and Patent Costs

Licenses and patent costs at December 31, 2002 and 2001 are summarized as follows:

	2002	2001	Weighted average useful life (in years)
	(in thousands)		
Licenses, at cost	\$ 2,333	\$ 2,333	10
Patent costs	22,946	18,349	9.94
	-----	-----	
	25,279	20,682	
Less: Accumulated amortization	(10,319)	(8,368)	
	-----	-----	
	\$ 14,960	\$ 12,314	
	-----	-----	

(a) In 2002, 2001 and 2000, the Company incurred and capitalized \$4,724,000 (there were no significant retirements in 2002) and \$1,173,000 (there were no retirements in 2001) and \$7,000 (net of addition of \$368,000 and retirements of \$361,000), respectively, of costs to acquire, develop and extend patents in the United States, Japan, Europe and certain other countries, and amortized previously capitalized patent costs of \$1.9 million and \$1.2 million, respectively. In addition, in 2001, the Company acquired, through various acquisitions, patents of \$2,890,000.

(b) Effective January 5, 1990, 3D, Inc. acquired from UVP, Inc. ("UVP"), UVP's patents for stereolithography technology in exchange for \$9,075,000, \$500,000 of which was paid in cash and \$350,000 in offsets of costs incurred by the Company on behalf of UVP. The initial payment and offsets (\$850,000) have been capitalized and were fully amortized as of December 31, 2002. The agreement further provided for payment deferrals during 1990 through 1992 aggregating \$950,000 and annual payments based upon the sales levels of SLA machines up to a maximum of \$8,225,000. The Company records the annual payments as royalty expense. In 2002, 2001 and 2000, royalty expense aggregated \$599,000, \$662,000 and \$725,000, respectively, and is included in Cost of Sales Products in the accompanying consolidated statements of operations. Royalty obligations at December 31, 2002 and 2001, are \$1,804,000 and \$1,672,000, respectively, and are included in accrued liabilities in the accompanying consolidated balance sheets. In the event the Company licenses the acquired technology to a third party, the Company is required to make additional accelerated payments to UVP of 50% of the royalties it receives up to an aggregate maximum of \$8,225,000, including the Company's payments based on sales levels of its SLA machines. In 2002 and 2001, the Company made additional accelerated payments totaling \$375,000 and \$179,000, respectively. UVP has retained a security interest in the purchased technology until the purchase price is fully paid. At December 31, 2002, \$1.7 million of the maximum royalty payments remained to be paid to UVP under this agreement.

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During the years ended December 31, 2002, 2001 and 2000, the Company recorded amortization expense on intangible assets of \$2.4 million, \$2.2 million, and \$2.2 million, respectively.

The estimated annual amortization expense of license, patents and acquired technology for each of the five succeeding fiscal years is as follows (in thousands):

For the year ending December 31,	
2003	\$ 3,452
2004	\$ 3,219
2005	\$ 3,119

2006	\$	3,079
2007	\$	2,315

(8) Acquired Technology

Acquired technology at December 31, 2002 and 2001 is summarized as follows:

	2002	2001
	-----	-----
	(in thousands)	
Acquired technology	\$ 10,029	\$ 9,880
Less: Accumulated amortization	\$ (2,382)	(688)
	-----	-----
	\$ 7,647	\$ 9,192
	=====	=====

In 2002, 2001, the Company amortized \$1.7 million, and \$.7 million in acquired technology, respectively. There was no amortization expense recorded in 2000.

(9) Goodwill

The changes in the carrying amount of goodwill by reportable segment are as follows (in thousands):

	Europe	Asia	USA	Total
	-----	-----	-----	-----
Balance at January 1, 2001	\$ --	\$ --	\$ --	\$ --
Acquisition of DTM	13,629	6,442	17,361	37,432
Acquisition of RPC	3,399	464	1,180	5,043
Acquisition of Optoform	1,683	--	--	1,683
	-----	-----	-----	-----
Balance as of December 31, 2001	18,711	6,906	18,541	44,158
Effect of foreign currency exchange rates	160	--	--	160
Adjustments related to DTM acquisition	50	24	64	138
	-----	-----	-----	-----
Balance at December 31, 2002	\$ 18,921	\$ 6,930	\$ 18,605	\$ 44,456
	=====	=====	=====	=====

The adjustments related to the DTM acquisition represent adjustments to the purchase price for sales and use taxes payable partially offset by income tax refunds received.

The Company recorded no goodwill amortization expense for the years ended December 31, 2002, 2001 and 2000.

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(10) Acquisitions

In February 2001, the Company acquired the stock and intellectual property of OptoForm SARL, a start-up company that has developed direct composites manufacturing paste or composite materials. The aggregate purchase price was \$2.6 million, of which \$1.4 million was settled in cash at the time of closing and \$1.2 million was paid in February 2002. The acquisition of OptoForm SARL was accounted for using the purchase method of accounting and is not material to the financial statements.

In August, 2001 the Company acquired 100 percent of the outstanding common shares of DTM. DTM designed, developed, manufactured, marketed and supported, on an international basis, solid imaging, manufacturing and tooling systems and related powdered sintering materials and services. The results of DTM's operations have been included in the consolidated financial statements since the date of acquisition. Under the terms of the merger agreement, the Company paid \$5.80 per share in cash for all the outstanding shares of common stock of DTM. The transaction valued DTM at approximately \$44.6 million (before transaction costs of \$4.9 million). The transaction was funded from a combination of sources consisting of cash on

hand of \$5.6 million, a \$24.0 million revolving line of credit and a \$15.0 million term loan.

The purchase price for the DTM acquisition has been allocated to assets acquired and liabilities assumed based on their fair value at the date of acquisition, as adjusted within the allocation period. The difference between the purchase price and the fair market value of the assets and liabilities acquired was recorded as goodwill. The net assets acquired and liabilities assumed are as follows:

	At December 31, 2001	
	(in thousands)	
Current assets	\$	12,368
Property, plant, and equipment		2,275
Intangible assets		11,900
Goodwill		37,432

Total assets acquired		63,975
Total liabilities assumed		14,424

Net assets acquired	\$	49,551
		=====

The \$11.9 million of acquired intangible assets have a useful life of approximately six years. The intangible assets are comprised of acquired technology of \$9.1 million and patents of \$2.8 million.

During 2001, the Company accrued \$2.1 million under purchase accounting for DTM for severance costs and duplicate facilities. The Company terminated 42 DTM employees subsequent to the acquisition. At December 31, 2002, acquisition liabilities for severance and duplicate facilities totaled \$472,000 of which \$232,000 is recorded in accrued liabilities and \$240,000 is recorded in other liabilities. The final severance and facilities payments will be made in 2003 and 2006, respectively.

The following table reflects unaudited pro-forma combined results of operations of the Company and DTM on the basis that the acquisition of DTM had taken place at the beginning of the fiscal year for all periods presented:

	Years Ended	
	December 31, 2001	December 31, 2000
	(in thousands except for per share data)	
Net sales	\$ 141,534	\$ 142,296
Net (loss) income	\$ (6,682)	\$ 7,470
Basic (loss) income per common share	\$ (0.53)	\$.63
Diluted (loss) income per common share	\$ (0.53)	\$.58

The unaudited pro-forma combined results of operations are not necessarily indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of the fiscal year or of future operations of the combined entities under the ownership and operation of the Company.

In September 2001, the Company acquired the stock of RPC, a manufacturer of solid imaging material. The aggregate purchase price was \$5.5 million of which \$2.2 million was settled in cash at the time of closing, \$2.0 million was paid in 2002 and the balance is due September 2003. The balance is denominated in Swiss Francs and the carrying value as of December 31, 2002 was \$1.6 million. The acquisition of RPC was accounted for using the purchase method of accounting and is not material to the financial statements.

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(11) Accrued Liabilities

Accrued liabilities at December 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----

(in thousands)

Taxes payable	\$	3,155	\$	915
Payroll and related taxes		3,018		2,565
Bonuses and commissions		1,915		3,211
Amounts due to RPC		1,599		2,045
Product royalties		1,134		2,055
Severance		822		947
Accrued health costs		1,687		656
Professional services		373		414
Amounts due to OptoForm		---		1,217
Rent		---		187
Other		1,826		1,396
		-----		-----
	\$	15,529	\$	15,608
		=====		=====

The Company has a self-insured medical and dental plan covering all domestic employees except for employees based in Colorado. The plan has a stop loss feature whereby any claims over \$50,000 per individual are covered by an insurance policy.

The Company sponsors a profit sharing 401K plan (the "plan") covering substantially all of its employees. The plan entitles employees to make minimum contribution amounts to the plan after meeting certain eligibility requirements. Contributions are limited to the maximum contribution allowances under the Internal Revenue Code. The Company matches 50% of the employee contribution up to a maximum as outlined in the plan. The Company may also make discretionary contributions to the plan, which are allocable to participants in accordance with the plan. For the years ended December 31, 2002, 2001 and 2000, the Company expensed \$391,000, \$331,000 and \$332,000, respectively.

(12) Other Liabilities

Other liabilities at December 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(in thousands)	
Royalty payable	\$ 950	\$ 950
Net present value of lease obligation	744	299
Long-term payments to RPC shareholders	---	1,325
Employee termination costs	150	452
Accrued pension costs	941	303
Other	612	---
	-----	-----
	\$ 3,397	\$ 3,329
	=====	=====

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(13) Severance and other restructuring costs

On July 24, 2002, the Company substantially completed a reduction in workforce, which eliminated 109 positions out of its total workforce of 523 or approximately 20% of the total workforce. In addition, the Company closed its existing office in Austin, Texas, which it acquired as part of its acquisition of DTM, as well as its sales office in Farmington Hills, Michigan. This was the second reduction in workforce completed in 2002. On April 9, 2002, the Company eliminated approximately 10% of its total workforce. All costs incurred in connection with these restructuring activities are included as severance and other restructuring costs in the accompanying consolidated statement of operations.

A summary of the severance and other restructuring costs consist of the following (in thousands, except number of employees):

Second Quarter Provision April 2002	Third Quarter Provision July 2002	Utilized	Remaining Balance
-----	-----	-----	-----

Severance costs (one-time benefits)	\$ 1,616	\$ 1,906	\$ 3,277	\$ 245
Contract termination costs	---	638	86	552
Other associated costs	---	194	128	66
	-----	-----	-----	-----
Total severance and other restructuring costs	\$ 1,616	\$ 2,738	\$ 3,491	\$ 863
	=====	=====	=====	=====
Positions eliminated	63	109	172	
	=====	=====	=====	

These amounts are included in accrued liabilities and are expected to be paid by October 2003. There have been no adjustments to the liability except for payments of amounts due under the restructuring plan.

(14) Borrowings

The total outstanding borrowings as of December 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(in thousands)	
Line of credit	\$ 2,450	\$ 6,151
	=====	=====
Long-term debt current portion:		
Industrial development bond	\$ 150	\$ 135
Term loan	10,350	3,000
	-----	-----
Total long-term debt current portion	\$ 10,500	\$ 3,135
	=====	=====
Long-term debt, less current portion:		
Industrial development bond	\$ 4,090	\$ 4,240
Term loan	---	12,000
	-----	-----
Total long-term debt, less current portion	\$ 4,090	\$ 16,240
	=====	=====
Subordinated debt	\$ 10,000	\$ 9,400
	=====	=====

Annual maturities of debt as of December 31, are as follows:

	(in thousands)

2003	\$ 12,950
2004	165
2005	180
2006	10,200
2007	220
Later years	3,325

Total	27,040
Less current portion	12,950

Long-term debt	\$ 14,090
	=====

Debt

On August 20, 1996, the Company completed a \$4.9 million variable rate industrial development bond financing of our Colorado facility. Interest on the bonds is payable monthly (the interest rate at December 31, 2002 was 1.31%). Principal payments are payable in semi-annual installments through August 2016. The bonds are collateralized by an irrevocable letter of credit issued by Wells Fargo Bank, N.A. that is further collateralized by a standby letter of credit issued by U.S. Bank in the amount of \$1.2 million. At December 31, 2002, a total of \$4.2 million was outstanding under the bond. The terms of the letter of credit require the Company to maintain specific levels of minimum tangible net worth and fixed charge coverage ratios. The Company was not in compliance with such covenants at December 31, 2002.

that it was in default under two covenants of the reimbursement agreement relating to this letter of credit relating minimum tangible net worth and fixed charge coverage ratios, and provided the Company until April 26, 2003, to cure such default.

On May 2, 2003, the Bank drew down a letter of credit in the amount \$1.2 million which was held as partial security for certain bonds and placed the cash in a restricted account. The Company obtained a waiver for the defaults from the Bank in a letter dated June 16, 2003, provided that the Company meets certain terms and conditions. The Company must remain in compliance with all other provisions of the reimbursement agreement for this letter of credit. On or before September 30, 2003, the Company must also provide the Bank with evidence of a proposal from another bank to replace this letter of credit, or should a replacement letter of credit not be obtained on or before December 31, 2003, the Company has agreed to retire \$1.2 million of the bonds using the restricted cash. Wells Fargo has accepted the proposal letter from Congress Financial as satisfying the requirement in the waiver agreement.

On August 17, 2001, the Company entered into a loan agreement with U.S. Bank totaling \$41.5 million, in order to finance the acquisition of DTM. The financing arrangement consisted of a \$26.5 million three-year revolving credit facility and \$15 million 66-month commercial term loan. At December 31, 2002, a total of \$2.4 million was outstanding under the revolving credit facility and \$10.4 million was outstanding under the term loan. The interest rate at December 31, 2002, for the revolving credit facility and term loan was 7.5% and 6.42%, respectively. The interest rate is computed as either: (1) the prime rate plus a margin ranging from 0.25% to 4.0%, or (2) the 90-day adjusted LIBOR plus a margin ranging from 2.0% to 5.75%. Pursuant to the terms of the agreement, U.S. Bank has received a first priority security interest in our accounts receivable, inventories, equipment and general intangible assets. The Company paid \$1.2 million of loan origination fees and costs to US Bank during 2001 in connection with this loan.

On May 1, 2003 the Company entered into "Waiver Agreement Number Two" with U.S. Bank whereby U.S. Bank waived all financial covenant violations at December 31, 2002 and March 31, 2003. The events of default caused by the Company's failure to timely submit audited financial statements and failure to make the March 31, 2003 principal payment of \$5.0 million were also waived. The agreement requires the Company to obtain additional equity investments of at least \$9.6 million; to pay off the balance on the term loan of \$9.6 million by May 5, 2003; to increase the applicable interest rate to Prime plus 5.25%; and to pay a \$150,000 waiver fee and all related costs of drafting the agreement. US Bank has also agreed to waive the Company's compliance with each financial covenant in the loan agreement through September 30, 2003. Provided the Company obtains a commitment letter from a qualified lending institution by September 30, 2003, to refinance all of the outstanding obligations with US Bank, the waiver will be extended to the earlier of December 31, 2003, or the expiration date of the commitment letter. The Company has complied with all aspects of Waiver Agreement Number Two including the receipt of equity investments of \$ 9.6 million and the \$9.6 million principal repayment of the term loan.

Subordinated Debt

In the fourth quarter of 2001, the Company initiated the sale of a subordinated convertible debenture. As of December 31, 2001, the Company received \$9.4 million in proceeds from the sale. The Company received additional proceeds of \$600,000 in January 2002, for a total of \$10.0 million. The convertible debentures can be converted into 833,333 shares of the Company's common stock immediately at the option of the holder, or at the Company's discretion any time after December 31, 2003, and prior to maturity at December 31, 2006. The debenture bears interest at the rate of 7%, payable quarterly.

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The Company estimates the fair market value (FMV) of the subordinated debt based on prevailing interest rates, the number of days outstanding and the volatility of the Company's stock price. At December 31, 2003, the estimated FMV of the debt is \$8.6 million.

In September 2001, the Company sold 617,000 shares of its \$.001 par value common stock to outside investors for \$8,021,000. In May 2002, the Company sold 1,125,000 shares (125,000 shares were repurchased from Vantico and subsequently resold in this private placement) of its \$.001 par value common stock to outside investors for aggregate net proceeds of \$12.5 million.

On May 23, 1996, the Company's stockholders approved the 1996 Stock Incentive Plan (the "1996 Plan") and the 1996 Stock Option Plan for Non-Employee Directors (the "Director Plan"). The maximum number of shares of common stock that may be issued pursuant to options granted under the 1996 Plan and the Director Plan is 3.6 million and 300,000, respectively. Both the 1996 Plan and the Director Plan expire on March 21, 2006, and no further options will be granted after that date. The 1996 Plan also provides for "reload options," which are options to purchase additional shares if a grantee uses already-owned shares to pay for an option exercise. To date the "reload option" provision has not been utilized. The Company also had a 1989 Employee and Director Incentive Plan (the "1989 Plan") in which options for substantially all common shares authorized under these plans had been previously issued. On February 28, 2001, the Board of Directors of the Company adopted the 2001 Stock Incentive Plan (the "2001 Plan"). Under the 2001 Plan, the committee and the Chief Executive Officer are authorized to grant non-qualified stock options to purchase shares of Common Stock of the Company. The number of options granted to an individual is based upon a number of factors, including his or her position, salary and performance, and the overall performance and stock price of the Company. Officers of the Company, including members of the Board of Directors who are officers, are not eligible for stock option grants under the 2001 Plan. Subject to adjustment for stock splits, stock dividends and other similar events, the total number of shares of Common Stock reserved for issuance under the 2001 Plan is 500,000 shares. The option exercise price per share under all plans is equal to the fair market value on the date of grant. The vesting and exercise periods for all plans, except the Director Plan, are determined at the discretion of the Compensation Committee of the Board of Directors. The majority of options issued under the 2001 Plan, the 1996 Plan and the 1989 Plan vest 25% annually, commencing one year from the date of grant and expiring between six and ten years from the date of grant. Under the Director Plan, each non-employee director ("outside director") of the Company will automatically be granted annual non-statutory stock options to purchase 7,500 shares of common stock. Each option issued under the Director Plan vests in equal annual installments over a three-year period beginning on the first anniversary of the grant, and expires ten years from the date of grant.

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

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
			(shares in thousands)			
Outstanding at beginning of year	3,153	\$ 11.43	2,160	\$ 9.68	2,400	\$ 7.33
Granted	744	8.84	1,344	13.28	701	14.20
Exercised	(117)	7.28	(294)	7.56	(779)	6.23
Lapsed or canceled	(1,162)	10.84	(57)	8.63	(162)	8.78
Outstanding at year end	2,618	11.25	3,153	11.43	2,160	9.68
Options exercisable at year end	1,585		1,019		719	
Options available for future grants	1,192		793		266	
Weighted average fair value of options granted during the year:	\$ 4.78		\$ 3.66		\$ 2.80	

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The following table summarizes information about stock options outstanding at December 31, 2002:

Range:	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price

(shares in thousands)

\$3.00 to \$4.99	75	6.71	4.88	75	4.88
\$5.00 to \$9.99	959	5.94	6.39	826	6.31
\$10.00 to \$14.99	719	8.08	11.69	280	10.68
\$15.00 to \$19.99	815	6.00	16.36	354	16.80
\$20.00 to \$24.50	50	3.12	24.20	50	24.20
	-----			-----	
	2,618			1,585	
	=====			=====	

(a) As of December 31, 2002, options for 389,400, 670,635 and 132,075 shares of common stock were available for future grants under the 2001, 1996 and the 1996 Director Plans, respectively (1,192,110 shares in the aggregate). The 1996 Plan and 1989 Plan also provide for the issuance of Stock Appreciation Rights ("SARs") and Limited Stock Appreciation Rights ("LSARs"). As of December 31, 2002, no SARs or LSARs have been issued.

(b) In December 1995, the Company's Board of Directors adopted a Shareholders Rights Plan (the "Plan"). Under the provisions of the Plan, the Company distributed to its stockholders, rights entitling the holders to purchase one-hundredth of a share of Series A preferred stock for each share of common stock then held at an exercise price of \$75. Upon the occurrence of certain "triggering events," each right entitles its holder to purchase, at the rights' then-current exercise price, a number of shares of common stock of the Company having a market value equal to twice the exercise price. A triggering event occurs ten days following the date a person or group (other than an "Exempt Person"), without the consent of the Company's Board of Directors, acquires 15% or more of the Company's common stock or upon the announcement of a tender offer or an exchange offer, the consummation of which would result in the ownership by a person or group of 15.1% or more of the Company's common stock. The rights will expire on December 3, 2005.

(c) On May 6, 1997, the Company announced that its Board of Directors had authorized the Company to buy up to 1.5 million of its shares of common stock in the open market and through private transactions. During 1997 and 1998 the Company purchased 25,000 and 200,000 of its own shares of common stock for approximately \$165,000 and \$1.4 million, respectively. In the fourth quarter of 2002, these shares were retired. Currently, it is not anticipated that the Company will acquire any additional shares under this program.

(d) In the second quarter of 1998, the Company established the 1998 Employee Stock Purchase Plan ("ESPP") to provide eligible employees the opportunity to acquire limited quantities of the Company's common stock. The exercise price of each option will be the lesser of (i) 85% of the fair market value of the shares on the date the option is granted or (ii) 85% of the fair market value of the shares on the last day of the period during which the option is outstanding. An aggregate of 600,000 shares of common stock has been reserved for issuance under the plan.

Shares purchased under the Company's ESPP were 26,163, 23,090 and 19,895, at weighted average prices of \$7.73, \$10.50 and \$9.57 in 2002, 2001 and 2000, respectively. The weighted average fair values of ESPP shares issued in 2002, 2001 and 2000, were \$2.65, \$2.76 and \$4.51, respectively.

(e) The Company applies 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 its plan stock options. 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. The Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which was released in December of 2002 as an amendment to SFAS No. 123. These statements establish accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123 and SFAS No. 148, the Company has elected to continue to apply the intrinsic value-based method of accounting described above.

The Company accounts for option grants to non-employees using the guidance of SFAS No. 123, as amended by SFAS No. 148, and Emerging Issues Task Force ("EITF") No. 96-18, whereby the fair value of such

options is determined using the Black-Scholes option pricing model at the earlier of the date at which the non-employee's performance is complete or a performance commitment is reached.

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SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options. The fair value of options granted in 2002, 2001 and 2000 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001	2000
	-----	-----	-----
Expected life (in years)	2.7	2.9	3.8
Risk-free interest rate	1.97%	4.80%	5.00%
Volatility	0.83	0.63	0.70
Dividend yield	0.00%	0.00%	0.00%

(16) Computation of (Loss) Earnings Per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share (EPS) computations for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
	-----	-----	-----
	(in thousands)		
Numerator:			
Net (loss) income -- numerator for basic and diluted net (loss) income per share	\$ (14,866)	\$ (2,357)	\$ 7,870
Denominator:			
Denominator for basic net (loss) income per share-weighted average shares	12,837	12,579	11,851
Effect of dilutive securities:			
Stock options, warrants and convertible debt	---	---	1,038
Denominator for diluted net (loss) income per share-weighted average shares	12,837	12,579	12,889
	=====	=====	=====

Potential common shares related to convertible debt, stock options and stock warrants were excluded from the calculation of diluted EPS because their effects were antidilutive. The weighted average for common shares excluded from the computation were approximately 3,641,000, 2,791,000 and 459,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

(17) Related Party Transactions

- (a) At December 31, 2002, the Company has remaining notes receivable totaling \$59,000 from certain executive officers and employees of the Company pursuant to the 1996 Stock Incentive Plan and for purchases of stock related to stock options. The original amount of the loans was \$670,000, of which \$40,000 was forgiven in 2000, \$120,000 was canceled (and shares returned and canceled) in 1999, and \$185,000, \$86,000 and \$120,000 and \$60,000 were repaid in 2002, 2001, 2000 and 1998, respectively. The loans were used to purchase shares of the Company's common stock at the fair market value on the date of purchase. These notes bear interest at a rate of 6% per annum and mature in the years 2003 and 2004. The notes receivable are shown on the balance sheet as a reduction of stockholders' equity.
- (b) For 2001, in connection with his services as an employee of the Company, the Company's Board granted to Mr. Gary J. Sbona, the Chairman and Chief Executive Officer of Regent Pacific Corporation, options to purchase 350,000 shares of the Company's common stock, at an exercise price of \$12.43 per share. The Company granted Mr. Sbona options to purchase 350,000 shares of the Company's common stock in 2000 and 1999 at an exercise price of \$17.39 and \$6.00 per share, respectively. The 350,000 shares granted in 2001 and 1999 both

exceeded the fair market value of the Company's common stock at the date of grant. All shares will vest over a three-year period or sooner upon certain change in control transactions or upon

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the termination of Regent Pacific's management agreement. In 2000, 116,666 options were exercised at a per share price of \$16.00.

- (c) On December 31, 2001, the Chairman of the Board of Directors and related parties contributed \$1.0 million to the completion of the \$10.0 million subordinate convertible debenture (see Note 14). The Chairman of the Board of Directors and related parties can convert the \$1.0 million debenture into 83,333 shares of the Company's common stock at any time after December 31, 2003 and prior to maturity at December 31, 2006. The debenture bears interest at the rate of 7%, payable quarterly.
- (d) In June 2000, the Company entered into a distribution agreement for ThermoJet printers with 3D Solid Solutions ("3DSS"), a partnership in which Mr. Loewenbaum, the Chairman of the Board of Directors, is a partner. As of December 31, 2001, Solid Imaging Technologies, LLC, of which Mr. Loewenbaum is the sole member, was the general partner of 3DSS. In addition, Mr. Loewenbaum also had both direct and indirect limited partnership interest in 3DSS. As of December 31, 2001 3DSS owes \$118,000 to the Company for the purchase of five printers plus materials and maintenance. In 2002, 3DSS paid the Company approximately \$84,000 for the purchase of products and services, and does not owe the Company any money at December 31, 2002.
- (e) Brian Service has been retained as Chief Executive Officer. Mr. Service's services were previously provided under an arrangement with Regent Pacific Corporation. From September 10, 2002 (the date of the termination of the Regent Agreement), through October 15, 2002, Mr. Service was engaged on an interim consulting basis for which he was paid \$79,999. Effective October 15, 2002, Mr. Service was employed by the Company pursuant to an employment agreement under which he has agreed to serve as Chief Executive Officer until at least December 2003. Mr. Service is being paid \$17,809 on a bi-weekly basis under this agreement, and has been awarded fully vested options, with a term of five years, to purchase 350,000 shares of our common stock at a price of \$5.78.
- (f) On November 18, 2002, the Company entered into a consulting agreement with Brian K. Service, Inc. ("BKSI"), a corporation in which the Company's Chief Executive Officer is a stockholder, officer and director. Pursuant to this agreement, the Company would pay to BKSI an amount of up to \$310,000 for an 11-month period for the provision of the services of qualified consultants to the Company. The Company paid \$71,000 pursuant to this agreement through December 31, 2002. This agreement was approved by the Oversight Committee of the Company's Board of Directors (subsequently subsumed into the newly created Corporate Governance Committee), which is responsible for approving all transactions between the Company and its officers and directors.
- (g) From October 1999 until November 2002, G. Walter Loewenbaum II was an employee of the Company, with a salary of \$180,000 per annum. He resigned from this employment in November 2002. At the regularly scheduled Board meeting on November 18, 2002, the Board voted unanimously to grant to Mr. Loewenbaum compensation of \$180,000 per annum for performing the duties of Chairman of the Board of the Company.

(18) Income Taxes

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

	2002	2001	2000
	-----	-----	-----
	(in thousands)		
Domestic	\$ (7,439)	\$ (3,877)	\$ 10,783
Foreign	1,482	528	1,396
	-----	-----	-----
Total	\$ (5,957)	\$ (3,349)	\$ 12,179
	=====	=====	=====

The components of income tax expense (benefit) for the years ended December 31, 2002, 2001 and 2000 are as follows:

Current:	2002	2001	2000
----------	------	------	------

	(in thousands)		
U.S. Federal	\$ ---	\$ 1,189	\$ 1,833
State	---	(343)	443
Foreign	1,595	556	54
Total	\$ 1,595	\$ 1,402	\$ 2,330

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Deferred:

U.S. Federal	\$ 5,652	\$ (2,669)	\$ 1,478
State	1,662	275	(21)
Foreign	---	---	522
Total	7,314	(2,394)	1,979
Total income tax expense (benefit)	\$ 8,909	\$ (992)	\$ 4,309

The overall effective tax rate differs from the statutory federal tax rate for the years ended December 31, 2002, 2001 and 2000 as follows:

	% of Pretax (Loss) Income		
	2002	2001	2000
Tax (benefit) provision based on the federal statutory rate	(35.0)%	(34.0)%	34.0%
State taxes, net of federal benefit	18.2	(1.4)	2.3
Increase in excess of book over tax basis in foreign subsidiaries	(36.9)	---	---
Deemed dividend related to foreign operations	11.6	---	---
Utilization of net operating losses	---	---	(0.4)
Research tax credits	(8.3)	(8.4)	(1.7)
Foreign taxes	18.1	11.2	0.8
Change in valuation allowance	---	---	(1.0)
	181.6		
Foreign sales corporation benefit	---	---	(0.4)
Other	0.4	3.0	1.8
	149.7%	(29.6)%	35.4%

The components of the Company's net deferred tax assets at December 31 are as follows:

	2002	2001
	(in thousands)	
Deferred tax assets:		
Tax credits	\$ 6,138	\$ 4,636
Net operating loss carry-forwards	14,212	10,145
Reserves and allowances	1,793	1,044
Accrued liabilities	1,917	2,518
Property and equipment (excess tax basis over book basis)	345	712
Deferred revenue	488	---
Other	15	59
Total deferred tax assets	24,908	19,114
Valuation allowance	(18,696)	(5,835)
Net deferred tax assets	\$ 6,212	\$ 13,279
Deferred tax liabilities:		
Intangibles	\$ 3,931	\$ 4,210
Deferred lease revenue	803	1,026
Capitalized software development costs	168	190
Patents and licenses	414	---
State taxes	896	42
Total deferred tax liabilities	6,212	5,468
Net deferred tax assets	\$ ---	\$ 7,811

During 2002, \$6.3 million was excluded from taxable income as a result of making increased investments in certain foreign subsidiaries. The technical requirements to defer such income are not well developed and as a consequence there is some risk that on audit some or all of such amount might be required to be recognized as taxable income which would reduce the amount of net operating loss carryforwards.

As of December 31, 2002, the Company has net operating loss carry-forwards for United States federal and foreign income tax purposes of approximately \$31.1 million and \$6.1 million, respectively. Approximately \$6.5 million of the federal net operating losses as of December 31, 2002 were acquired as part of the DTM acquisition in 2001 and are subject to loss limitations pursuant to IRC Section 382. The federal net operating losses will begin to expire in 2011. Ultimate utilization of these loss carry-forwards depends on future taxable earnings of the Company.

As of December 31, 2002, the Company has research and development tax credit carry-forwards for United States federal and state income tax purposes of \$3.6 million and \$1.9 million, respectively. The federal credits will begin to expire in 2003; the state credits will not expire.

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The Company has alternative minimum tax credit carry-forwards of \$475,000 for United States federal income tax purposes, which do not expire.

The Company has not provided for any taxes on the unremitted earnings of its foreign subsidiaries, as the Company intends to permanently reinvest all such earnings offshore.

(19) Segment Information

The Company develops, manufactures and markets worldwide solid imaging systems designed to reduce the time it takes to produce three-dimensional objects. Segments are reported by geographic sales regions. The Company's reportable segments include the Company's administrative, sales, service, manufacturing and customer support operations in the United States and sales and service offices in the European Community (France, Spain, Germany, the United Kingdom, Italy, and Switzerland) and in Asia (Japan, Hong Kong, and Singapore).

The Company evaluates performance based on several factors, of which the primary financial measure is operating income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 3 of the Notes to Consolidated Financial Statements.

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

	2002	2001	2000
	-----	-----	-----
	(in thousands)		
Net Sales:			
USA	\$ 69,385	\$ 81,873	\$ 81,050
Europe	62,083	51,826	44,203
Asia	14,085	13,378	12,358
	-----	-----	-----
Subtotal	145,553	147,077	137,611
Intersegment Elimination	(29,592)	(28,337)	(28,325)
	-----	-----	-----
Total	\$ 115,961	\$ 118,740	\$ 109,286
	=====	=====	=====

	2002	2001	2000
	-----	-----	-----
	(in thousands)		
Intersegment Sales:			
USA	\$ 12,047	\$ 20,841	\$ 22,284
Europe	17,545	7,496	6,041
Asia	---	---	---
	-----	-----	-----
Total	\$ 29,592	\$ 28,337	\$ 28,325

=====
 All intersegment sales are recorded at amounts consistent with prices charged to distributors, which are above cost.

	2002	2001	2000
	-----	-----	-----
		(in thousands)	
(Loss) income from operations:			
USA	\$ (29,662)	\$ (9,263)	\$ 6,413
Europe		664	703
	3,144		
Asia	5,555	6,405	5,015
	-----	-----	-----
Subtotal	(20,963)	(2,194)	12,131
Intersegment Elimination	(467)	(122)	(67)
	-----	-----	-----
Total	\$ (21,430)	\$ (2,316)	\$ 12,064
	=====	=====	=====

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	2002	2001	2000
	-----	-----	-----
		(in thousands)	
Depreciation and amortization:			
USA	\$ 7,040	\$ 5,986	\$ 5,340
Europe	2,769	1,718	905
Asia	93	---	---
	-----	-----	-----
Total	\$ 9,902	\$ 7,704	\$ 6,245
	=====	=====	=====

	2002	2001
	-----	-----
	(in thousands)	
Assets:		
USA	\$ 273,492	\$ 313,785
Europe	59,067	54,818
Asia	13,825	7,062
	-----	-----
Subtotal	346,384	375,665
	-----	-----
Intersegment Elimination	(214,151)	(210,723)
	-----	-----
Total	\$ 132,233	\$ 164,942
	=====	=====

	2002	2001	2000
	-----	-----	-----
		(in thousands)	
Capital expenditures:			
USA	\$ 1,519	\$ 1,783	\$ 2,858
Europe	1,302	1,534	2,035
Asia	389	---	---
	-----	-----	-----
Total	\$ 3,210	\$ 3,317	\$ 4,893
	=====	=====	=====

	2002	2001
	-----	-----
	(in thousands)	

Long-Lived Assets:

USA	\$	49,351	\$	54,659
Europe		28,716		25,379
Asia		7,341		7,062
		-----		-----
Total	\$	85,408	\$	87,100
		=====		=====

(20) Commitments and Contingencies

- (a) The Company leases its facilities under non-cancelable operating leases. The leases are generally on a net-rent basis, whereby the Company pays taxes, maintenance and insurance. Leases that expire are expected to be renewed or replaced by leases on other properties. Rental expense for the years ended December 31, 2002, 2001 and 2000, aggregated \$2.8 million, \$2.0 million and \$1.9 million, respectively.

Minimum annual rental commitments under the leases at December 31, 2002 are as follows:

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Year ending December 31:	

(in thousands)	
2003	\$ 2,949
2004	2,599
2005	1,723
2006	1,518
2007	738
Later years	--

	\$ 9,527
	=====

- (b) United States v. 3D Systems Corporation and DTM Corporation. The United States Department of Justice, or DOJ, filed a complaint on June 6, 2001 challenging the Company's acquisition of DTM. Under a settlement agreement with the DOJ related to the merger with DTM, the Company must license its patents for use in either the manufacture and sale of SL or LS products, but not both, in North America. The Company refers to this settlement agreement as the Final Judgment. On July 9, 2002, the DOJ approved Sony Corporation as the selected licensee for the field of stereolithography.
- (c) Vantico International S.A. and Vantico, Inc. v. 3D Systems, Inc. In August 2001, the Company gave a six-month notice of termination of our Resin Development Agreement with Vantico. In August 2001, Vantico filed a claim with the International Chamber of Commerce International Court of Arbitration requesting a declaration of the parties' rights under the Agreement. On September 4, 2001, the Company filed a counterclaim requesting that Vantico be enjoined from impermissibly using the Company's confidential information, shared with Vantico during the 13-year duration of the Resin Development Agreement. On March 19, 2002, the Company settled its dispute under an agreement that required Vantico to pay the Company either \$22 million in cash, or through transfer of 1.55 million shares of the Company's stock (see Note 21).
- (d) 3D Systems, Inc. v. Aaroflex, et al. On January 13, 1997, the Company filed a complaint in U.S. District Court, Central District of California, against Aarotech Laboratories, Inc., Aaroflex, Inc. and Albert C. Young. Aaroflex is the parent corporation of Aarotech. Young is the Chairman of the Board and Chief Executive Officer of both Aarotech and Aaroflex. The original complaint alleged that stereolithography equipment manufactured by Aaroflex infringes six of our patents. In August 2000, two additional patents were added to the complaint. The Company seeks damages and injunctive relief from the defendants, who have threatened to sue the Company for trade libel. To date, the defendants have not filed such a suit.

Following decisions by the District Court and the Federal Circuit Court of Appeals on jurisdictional issues, Aarotech and Mr. Young were dismissed from the suit, and an action against Aaroflex is proceeding in the District Court. Motions for summary judgment by Aaroflex on multiple counts contained in the Company's complaint and on Aaroflex's counterclaims have been dismissed and fact discovery in the case has been completed. The Company's motions for summary judgment for patent infringement and validity and Aaroflex's motion for patent invalidity were heard on May 10, 2001. In February 2002, the court denied

Aaroflex's invalidity motions. On April 24, 2002, the court denied the Company's motions for summary judgment on infringement, reserving the right to revisit on its own initiative the decisions following the determination of claim construction. The court also granted in part the Company's motion on validity. The case is scheduled for trial commencing August 5, 2003, and the trial is scheduled to last three weeks.

- (e) DTM vs. EOS, et al. The plastic sintering patent infringement actions against EOS began in France, Germany, and Italy in 1996. Legal actions in France, Germany, and Italy are proceeding. EOS had challenged the validity of two patents related to thermal control of the powder bed in the European Patent Office, or EPO. Both of those patents survived the opposition proceedings after the original claims were modified. One patent was successfully challenged in an appeal proceeding and in January 2002, the claims were invalidated. The other patent successfully withstood the appeal process and the infringement hearings were re-started. In October 2001, a German district court ruled the patent was not infringed, and this decision is being appealed. In November 2001, the Company received a decision of a French court that the French patent was valid and infringed by the EOS product sold at the time of the filing of the action and an injunction was granted against future sales of the product. In June 2002 EOS filed an appeal for the French decision. That action is pending. In February 2002, the Company received a decision from an Italian court that the invalidation trial initiated by EOS was unsuccessful and the Italian patent was held valid. The infringement action in a separate Italian court has now recommenced and a decision is expected based on the evidence that has been submitted.

In 1997, DTM initiated an action against Hitachi Zosen Joho Systems, the EOS distributor in Japan. In May 1998, EOS initiated two invalidation trials in the Japanese Patent Office attempting to have DTM's

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patent invalidated on two separate bases. The Japanese Patent Office ruled in DTM's favor in both trials in July 1998, effectively ruling that DTM's patent was valid. In September 1999, the Tokyo District Court then ruled in DTM's favor and granted a preliminary injunction prohibiting further importation and selling of the infringing plastic sintering EOS machine. In connection with this preliminary injunction, DTM was required to place 20 million yen, which is approximately \$200,000, on deposit with the court towards potential damages that Hitachi might claim should the injunction be reversed. Based on the Tokyo District Court's ruling, EOS then filed an appeal in the Tokyo High Court to have the rulings of the Japanese Patent Office revoked. On March 6, 2001, the Tokyo High Court ruled in EOS's favor that the rulings of the Japanese Patent Office were in error. As a result, the Tokyo High Court found that Hitachi Zosen was not infringing DTM's patent. These rulings were unsuccessfully appealed by DTM to the Tokyo Supreme Court. We amended the claims and the patent was reinstated in a corrective action in 2002 and no further claims are pending pertaining to the patent in this matter.

- (f) EOS vs. DTM and 3D Systems, Inc. In December 2000, EOS filed a patent infringement suit against DTM in U.S. District Court, Central District of California. EOS alleges that DTM has infringed and continues to infringe certain U.S. patents that the Company licenses to EOS. EOS has estimated its damages to be approximately \$27.0 million for the period from the fourth quarter of 1997 through 2002. In April 2001, consistent with an order issued by the federal court in this matter, the Company was added as a plaintiff to the lawsuit. On October 17, 2001, the Company was substituted as a defendant in this action because DTM's corporate existence terminated when it merged into the Company's subsidiary, 3D Systems, Inc. in August 2001. In February 2002, the court granted summary adjudication on the Company's motion that any potential liability for patent infringement terminated with the merger of DTM into 3D Systems, Inc. Concurrently, the court denied EOS's motion for a fourth amended complaint to add counts related to EOS's claim that 3D Systems, Inc. is not permitted to compete in the field of laser sintering under the terms of the 1997 Patent License Agreement between 3D Systems, Inc. and EOS. 3D Systems, Inc. filed counterclaims against EOS for the sale of polyamide powders in the United States based on two of the patents acquired in the DTM acquisition. A motion by 3D Systems, Inc. for a preliminary injunction was denied by the court on May 14, 2002.
- (g) 3D Systems, Inc. vs. AMES. In April 2002, the Company filed suit for

patent infringement against Advanced Manufacturing Engineering Systems of Nevada, Iowa for patent infringement related to AMES' purchase and use of EOS powders in the Company's SLS system. On June 24, 2002, upon motion by the defendants, this matter was stayed pending trial of the EOS vs. DTM and 3D Systems, Inc. matter described immediately above.

- (h) EOS GmbH Electro Optical Systems vs. 3D Systems, Inc. On January 21, 2003, The Company was served with a complaint that had been filed in May of 2002 in Regional Court, Commerce Division, Frankfurt, Germany, seeking 1,000,000 Euros for the alleged breach of a non-competition agreement entered into in 1997. The Company answered the complaint on April 25, 2003.
- (i) Hitachi Zosen vs. 3D Systems, Inc. On November 25, 2002, 3D Systems was served with a complaint through the Japanese Consulate General from EOS' Japanese distributor, Hitachi Zosen, seeking damages in the amount of 535,293,436 yen (approximately \$4.5 million), alleging lost sales during the period in which DTM Corporation had an injunction in Japan prohibiting the sale of EOS EOSint P350 laser sintering systems. Initial procedural hearings occurred in March and April 2003 in Tokyo District Court, with a third preliminary hearing set for June 30, 2003.
- (j) Board of Regents, The University of Texas System and 3D Systems, Inc. vs. EOS GmbH Electro Optical Systems. On February 25, 2003, 3D Systems, Inc. along with the Board of Regents of the University of Texas, filed suit against EOS GmbH Electro Optical Systems ("EOS") in the United States District Court, Western District of Texas seeking damages and injunctive relief arising from violation of U.S. Patents Nos. 5,597,589 and 5,639,070, which are patents relating to laser sintering which have been licensed by the University of Texas to 3D. On March 25, 2003, EOS filed its answer to this complaint, along with counterclaims including breach of contract and antitrust.
- (k) Regent Pacific Management Corporation vs. 3D Systems Corporation. On June 11, 2003, Regent Pacific Management Corporation filed a complaint against us for breach of contract in the Superior Court of the State of California, County of San Francisco. Regent provided

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management services to us from September 1999 through September 2002. Regent alleges that we breached non-solicitation provisions in our contract with it by retaining the services of two Regent contractors following the termination of the contract. Regent seeks \$780,000 in liquidated damages together with reasonable attorney's fees and costs. The Company currently is evaluating the complaint.

- (l) The Company is engaged in certain additional legal actions arising in the ordinary course of business. On the advice of legal counsel, the Company believes it has adequate legal defenses and that the ultimate outcome of these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

At this time these contingencies are not estimable and have not been recorded, however, management believes the ultimate outcome of these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

(21) Gain on Arbitration Settlement

On March 19, 2002 the Company reached a settlement agreement with Vantico relating to the termination of the Distribution and Research and Development agreements which required Vantico to pay 3D Systems, Inc. \$22 million. Under the terms of the settlement, Vantico could satisfy its obligation through payment in cash or delivery of 1.55 million shares of the Company's common stock. On April 22, 2002, Vantico delivered 1.55 million shares of the Company's common stock to the Company. Of the \$22 million settlement, the Company recorded other income of \$18.5 million, reimbursement for legal and professional fees of \$1.8 million, and \$1.7 million as capital in excess of par relating to the value of Vantico's option to settle its obligation through the return of shares to 3D Systems, Inc.

The net operating loss carryforward includes an amount of \$6.3 million that was excluded from taxable income as a result of making increased investment in certain foreign subsidiaries. The technical requirements to defer such income are not well developed and as a consequence there is some risk that on audit some or all of such amount might be required to be recognized as

taxable income which would reduce the amount of net operating loss carryforwards.

(22) Selected Quarterly Financial Data (unaudited)

Summarized quarterly financial data follows:

	Quarter Ended								
	September 27, 2002		June 28, 2002		March 31, 2002				
	Dec. 31, 2002	As		As		As		As	
		As Restated	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported
(in thousands, except per share information)									
Total sales	\$ 31,990	\$ 27,914	\$ 28,389	\$ 28,543	\$ 28,782	\$ 27,514	\$ 27,195		
Gross profit	13,590	11,910	12,147	10,799	10,874	10,320	10,137		
Total operating expenses	16,281	17,572	17,652	19,298	19,378	14,898	14,828		
(Loss) income from operations	(2,691)	(5,662)	(5,508)	(8,499)	(8,504)	(4,578)	(4,691)		
Income tax expense (benefit)	12,035	(4,079)	(4,345)	(3,539)	(3,210)	4,492	4,575		
Net (loss) income	(15,720)	(2,212)	(1,789)	(5,628)	(5,962)	8,694	8,498		
Basic income (loss) per share	(1.24)	(.17)	(.14)	(.44)	(.46)	.66	.65		
Diluted (loss) income per share	(1.24)	(.17)	(.14)	(.44)	(.46)	.59	.58		

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	Quarter Ended								
	December 31, 2001		September 28, 2001		June 29, 2001		March 31, 2001		
	As Restated	As		As		As		As	
		Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	
Total sales	\$36,320	\$ 36,735	\$ 31,407	\$ 31,544	\$ 24,948	\$ 25,042	\$ 26,065	\$ 27,903	
Gross profit	15,449	15,741	13,448	13,519	10,766	10,911	11,838	13,204	
Total operating expenses	18,192	18,847	12,792	12,792	11,730	11,730	11,103	11,103	
(Loss) income from operations	(2,743)	(3,106)	656	727	(964)	(819)	735	2,101	
Income tax (benefit) expense	(1,596)	(1,523)	130	136	(126)	(202)	600	802	
Net (loss) income	(2,160)	(2,593)	166	231	(564)	(344)	201	1,365	
Basic (loss) income per share	(0.17)	(0.20)	.01	.02	(.05)	(.03)	.02	.11	
Diluted (loss) income per share	(0.17)	(0.20)	.01	.02	(.05)	(.03)	.02	.11	

The interim financial statements for the quarterly periods ended March 31, June 28 and September 27, 2002 have been restated from amounts previously reported in the Company's quarterly reports on Form 10-Q to correct for certain errors made in the revenue recognition process (see Note 24).

The interim financial statements for the quarterly periods ended March 31, June 29, September 28 and December 31, 2001 have been restated from amounts previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 to correct for certain errors made in the revenue recognition process (see Note 24).

Income tax expense for the fourth quarter of 2002 includes an increase in the valuation allowance of deferred tax assets in the amount of \$12.9 million.

In the first quarter of 2002, the Company recorded an \$20.3 million gain associated with the Vantico arbitration.

The Company incurred additional expenses related to the DTM acquisition, legal fees related to the Vantico arbitration and had debt write-offs in the fourth quarter of 2001.

Per share amounts for each of the quarterly periods presented do not necessarily add up to the total presented for the year because each amount is independently calculated.

The Company presents its quarterly results on a 13-week basis ending the last Friday of each quarter and reports its annual financial information through the calendar year ended December 31.

(23) Subsequent Events

Preferred Stock

On May 5, 2003, The Company sold 2,634,016 shares of our Series B Convertible Preferred Stock for aggregate consideration of \$15.8 million. The preferred stock accrues dividends at 8% per share and is convertible

at any time into approximately 2,634,016 shares of common stock. The stock is redeemable at the Company's option after the third anniversary date. Redemption is mandatory on the tenth anniversary date, at \$6.00 per share plus accrued dividends.

SEC Inquiry

We received an inquiry from the SEC relating to our revenue recognition practices. The Audit Committee has completed its own inquiry into the matter and shared its findings with the SEC. To date, the Company has not been notified that the SEC has initiated a formal investigation.

Nasdaq Inquiry

On April 15, 2003, the Company received a Nasdaq Staff Determination letter notifying us that our common stock is subject to delisting from the Nasdaq National Market because we did not file this Annual Report on Form 10-K in a timely manner. On May 16, 2003, we engaged in a hearing before a Nasdaq Listing Qualifications Panel to appeal

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the Staff Determination. On June 12, 2003, Nasdaq determined to continue our listing under an exception to the continued listing requirements which requires us to file this Annual Report on Form 10-K by June 30, 2003 and our First Quarter Report on Form 10-Q by July 14, 2003.

Legal Proceedings

Regent Pacific Management Corporation vs. 3D Systems Corporation

On June 11, 2003, Regent Pacific Management Corporation filed a complaint against us for breach of contract in the Superior Court of the State of California, County of San Francisco. Regent provided management services to us from September 1999 through September 2002. Regent alleges that we breached non-solicitation provisions in our contract with it by retaining the services of two Regent contractors following the termination of the contract. Regent seeks \$780,000 in liquidated damages together with reasonable attorney's fees and costs. We currently are evaluating the complaint.

In addition, 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 has been advised that it currently is not a target of the grand jury investigation, and is complying with the subpoena.

(24) Restatement

Subsequent to the issuance of its 2001 consolidated financial statements, the Company's management determined that certain sales transactions recorded in 2001 and 2000 did not meet all of the criteria required for revenue recognition under United States Generally Accepted Accounting Principles. The restated transactions affect the Company's previously recorded amounts for accounts receivable, inventory, deferred revenue, sales, cost of sales and others as noted below. The consolidated financial statements as of and for the years ended December 31, 2001 and 2000 have been restated to correct the accounting for these transactions. A summary of the significant effects of the restatement is as follows:

	As Restated December 31, 2001	As Previously Reported December 31, 2001	As Restated December 31, 2000	As Previously Reported December 31, 2000
(in thousands, except per share amounts)				
Consolidated Balance Sheets				
As of December 31:				
Accounts receivable	\$ 36,262	\$ 38,181		
Inventories	18,546	17,822		
Current assets	69,342	70,537		
Deferred income taxes	6,750	6,618		
Total assets	164,942	166,005		
Accrued liabilities	15,608	15,681		
Deferred revenues	13,997	13,697		
Current liabilities	53,334	53,107		
Accumulated deficit	(6,553)	(5,263)		
Stockholders' equity	78,429	79,719		
Consolidated Statements of Operations				
For the year ended December 31:				
Sales	118,740	121,224	\$ 109,286	\$ 109,675

Cost of sales	67,239	67,849	56,698	56,813
Selling, general and administrative	42,807	43,761	32,710	32,710
Research and development	11,010	10,710	7,814	7,814
(Loss) income from operations	(2,316)	(1,096)	12,064	12,338
Provision for (benefit from) income tax	(992)	(788)	4,309	4,309
Net (loss) income	(2,357)	(1,341)	7,870	8,144
Basic net (loss) income per share	(0.19)	(0.11)	0.66	0.69
Diluted net (loss) income per share	(0.19)	(0.11)	0.61	0.63

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INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
3D Systems Corporation
Valencia, California

We have audited the consolidated financial statements of 3D Systems Corporation and its subsidiaries (the "Company") as of December 31, 2002, 2001 and for each of the three years in the period ended December 31, 2002, and have issued our report thereon dated June 20, 2003, which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) a going concern uncertainty and (ii) a restatement of the Company's 2001 and 2000 financial statements, and is included elsewhere in this Annual Report on Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 16. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Los Angeles, California
June 20, 2003

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SCHEDULE II

3D SYSTEMS CORPORATION
Valuation and Qualifying Accounts
Years ended December 31, 2002, 2001 and 2000

Year Ended	Item	Balance at beginning of year	Additions due to acquisition	Additions charged to expense	Deductions	Balance at end of Year
(in thousands)						
2002	Allowance for doubtful accounts	\$ 1,755	\$ ---	\$ 2,942	\$ (1,629)	\$ 3,068
2001	Allowance for doubtful accounts	\$ 1,599	\$ 793	\$ 290	\$ (927)	\$ 1,755
2000	Allowance for doubtful accounts	\$ 2,912	\$ ---	\$ 300	\$ (1,613)	\$ 1,599
2002	Inventory obsolescence reserve	\$ 1,618	\$ ---	\$ 585	\$ (327)	\$ 1,876
2001	Inventory obsolescence reserve	\$ 753	\$ 1,104	\$ 336	\$ (575)	\$ 1,618
2000	Inventory obsolescence reserve	\$ 1,776	\$ ---	\$ 1,026	\$ (2,049)	\$ 753

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Peter V. White

Peter V. White

Principal Accounting Officer
Date: June 30, 2003

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Brian K. Service and Peter V. White or any one of them, his attorney-in-fact and agent, with full power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming to all that said attorneys-in-fact, or their substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

Signature	Date	Title
/s/ Brian K. Service	June 30, 2003	Chief Executive Officer, President and Director (Principal Executive Officer)
/s/ Peter V. White	June 30, 2003	Principal Accounting Officer
/s/ Charles W. Hull	June 30, 2003	Chief Technology Officer and Director
/s/ G. Walter Loewenbaum II	June 30, 2003	Chairman of the Board of Directors
/s/ Miriam V. Gold	June 30, 2003	Director
/s/ Jim D. Kever	June 30, 2003	Director
/s/ Kevin S. Moore	June 30, 2003	Director
/s/ Richard C. Spalding	June 30, 2003	Director

Certification of
Principal Executive Officer of
3D Systems Corporation

I, Brian K. Service, certify that:

1. I have reviewed this annual report on Form 10-K of 3D Systems Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the

effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 30, 2003

/s/ Brian K. Service

By: Brian K. Service

Title: Chief Executive Officer, Chief
Operating Officer and President
(Principal Executive Officer)

Certification of
Principal Accounting Officer of
3D Systems Corporation

I, Peter V. White, certify that:

1. I have reviewed this annual report on Form 10-K of 3D Systems Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 30, 2003

/s/ Peter V. White
By: Peter V. White
Title: Vice President, Finance
(Principal Accounting Officer)

</TEXT>
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Exhibit 10.2

THIRD AMENDMENT TO LEASE

This Third Amendment to Lease (this "**Third Amendment**") is entered into as of this 27th day of August, 2002 by and between Katell Valencia Associates, a California limited partnership ("**Landlord**"), and 3D Systems, Inc., a California corporation ("**Tenant**") with reference to the following recitals.

RECITALS:

A. On or about January 1, 1989, Landlord and Tenant entered into an Industrial Real Estate Lease (the "**Original Lease**") for that certain premises commonly known as Building 6 and located at 26081 Avenue Hall, Valencia, California (the "**Property**"). On or about May 28, 1993, Landlord and Tenant entered into Lease Amendment No. 1 to the Original Lease (the "**First Amendment**"). On or about March 1, 1996, Landlord and Tenant entered into Lease Amendment No. 2 to the Original Lease (the "**Second Amendment**"). The Original Lease, as amended by the First Amendment and the Second Amendment, is hereinafter referred to as the "**Lease**".

B. The term of the Lease now expires on December 31, 2002.

C. Landlord and Tenant wish to amend the Lease on the terms and conditions set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Extended Term.

(a) Initial Term. Landlord and Tenant hereby extend the term of the Lease for five (5) years, and hereby agree that the term of the Lease shall expire on December 31, 2007. For purposes of this Third Amendment, the "**Effective Date**" shall mean January 1, 2003.

(b) Option Term. Tenant shall have the option to extend the term of the Lease for one (1) five (5) year period (i.e., from January 1, 2008 through December 31, 2012), provided that Tenant shall give Landlord written notice of its irrevocable election to exercise said option no sooner than January 1, 2007 and not later than June 30, 2007, time being of the essence (the "**Election Notice**"). If Tenant does not give the Election Notice to Landlord within such time period, Tenant's right to exercise the renewal option shall terminate, and Tenant shall no longer have the right to extend the term of the Lease. During the term of the renewal option, and except as specifically described below, Tenant's tenancy shall be subject to all the terms and provisions of the Lease, as hereby amended, provided that as of January 1, 2008 the monthly Base Rent shall be adjusted to equal the greater of (i) the monthly Base Rent payable for the month of December 2007 or (ii) ninety five percent (95%) of the fair market rental rate for the Property as of January 1, 2008 (the "**Initial Renewal Term Base Rent**"). In the event the parties are unable to agree on the then prevailing fair market rental rate, then the fair market rental rate shall be determined by the following appraisal procedure. Either party may initiate the appraisal procedure by giving written notice to the other party, which notice shall contain the written appointment of an appraiser selected by the initiating party. The party receiving such notice

shall have ten (10) days to give written notice to the initiating party appointing its appraiser. If the party receiving the initiating party's notice does not timely appoint an appraiser, then the appraiser appointed by the initiating party shall determine the fair market rental rate alone. If the two appraisers are timely appointed, they shall confer and attempt to agree on the prevailing fair market rental rate. If such appraisers agree, then the agreed value shall be the then prevailing fair market rental rate. If the two appraisers are unable to agree, but the higher appraisal is not more than 105% of the lower appraisal, then the average of the two appraisals shall be the then prevailing fair market rental rate. If the higher appraisal is more than 105% of the lower appraisal, then the two appraisers shall agree on a third appraiser, and the three appraisers together shall meet and confer in order to determine the then prevailing fair market rental rate. If any two appraisers agree on the then prevailing fair market rental rate, such rate shall be utilized. If no two appraisers are able to agree, then the fair market rental rate shall be the average of the two closest appraisals. Each party shall pay the cost of the appraiser appointed by it, and the cost of the third appraiser, if any, shall be borne equally by the parties. All appraisers shall be members of the M.A.I. and shall have at least five years experience in appraising property in the North San Fernando Valley/Valencia/Saugus area.

2. Base Rent.

(a) Prior to Effective Date. Prior to the Effective Date, Tenant shall continue to pay the Base Rent currently required by the Lease (as of the date of this Third Amendment \$66,666.67 per month).

(b) After Effective Date. Subject to increase as provided below, from and after the Effective Date, the monthly Base Rent shall be \$61,500.00. On July 1, 2005, the Base Rent shall be increased to an amount determined as follows: \$61,500.00 shall be multiplied by a fraction with the denominator equal to the Index (as defined below) for the month of October 2002 and the numerator equal to the Index for the month of April 2005. The Base Rent effective on July 1, 2005 shall be the number calculated in accordance with the foregoing, if such number is no less than \$66,217.00 per month and no more than \$71,144.00 per month. If the number so calculated is less than \$66,217.00 per month, the Base Rent on July 1, 2005 shall be increased to \$66,217.00 per month. If the number so calculated is more than \$71,144.00 per month, the Base Rent on July 1, 2005 shall be increased to \$71,144.00 per month.

(c) Index. For purposes of this Section 2, the "**Index**" shall mean the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for Urban Wage Earners and Clerical Workers (all items for the Los Angeles/Anaheim/Riverside Statistical Area on the basis of 1982-1984 = 100. If the Index for the date of adjustment is unavailable as of the date of adjustment, then the parties shall use the latest Index which is available, with an adjustment to be made as soon as possible after the Index for the adjustment date is available. If the format or components of the Index are materially changed after the date of this Third Amendment, Landlord shall substitute an index which is published by the Bureau of Labor Statistics or similar agency and which is most nearly equivalent to the Index in effect on the date of this Third Amendment. Landlord shall notify Tenant of the substituted Index which shall be used to calculate the increase in Base Rent unless Tenant objects in writing within fifteen (15) days after receipt of Landlord's notice, and any dispute shall be determined in accordance with Section 8 below.

3. Improvements.

(a) Tenant's Improvements. Tenant shall have the right to make improvements, alterations, repairs and/or additions to the Property (the "**Tenant Improvements**"), and Landlord shall reimburse Tenant for the costs incurred in making the Tenant Improvements up to a maximum amount of \$313,280.00 (the "**Tenant Improvement Allowance**"), all in accordance with the terms and conditions set forth in **Exhibit "A"** attached hereto and incorporated herein by this reference (the "**Work Letter Conditions**"). All of the terms and conditions of the Lease, including Article Six thereof, shall be applicable with respect to the Tenant Improvements.

(b) Landlord's Improvements. Landlord shall resurface and restripe the parking area of the Property, at Landlord's sole cost and expense, subject to a plan (including parking space dimensions) and schedule to be mutually agreed upon by Landlord and Tenant. Subject to delays caused by Tenant or matters beyond the reasonable control of Landlord, Landlord shall complete the resurfacing and the restriping on or before January 1, 2003. Tenant acknowledges and agrees that Tenant (and its employees and visitors) will not use the parking area during the time that the parking area is being resurfaced and restriped. Landlord shall use commercially reasonable efforts to schedule the resurfacing and restriping on a mutually convenient weekend. Tenant acknowledges that notwithstanding Landlord's efforts to schedule the resurfacing and restriping on a weekend, it may be necessary to perform some of the work on consecutive weekends.

(c) Removal of Tenant Improvements at End of Lease Term. The following provisions are intended to modify and clarify Section 6.06 of the Lease. At least ninety (90) days prior to expiration of the Lease Term, Landlord shall have the right, if it so elects, by written notice given to Tenant (a "**Removal Notice**"), to require that Tenant remove from the Property all, but not less than all, alterations, repairs, modifications and improvements previously made to the Property by or on behalf of Tenant, whether or not Landlord has consented to any or all of such improvements. If Landlord does not timely deliver a Removal Notice, Tenant shall not be required to remove any alterations, repairs, additions or improvements, and Tenant shall surrender the Property to Landlord, broom-clean, in the same condition received by Tenant except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of the Lease. If Landlord timely delivers a Removal Notice, Tenant shall, all at Tenant's expense, no later than fifteen (15) days following termination of the Lease, remove all alterations, repairs, additions and/or improvements previously made by or for the benefit of Tenant, whether or not made with Landlord's consent, and shall restore the Property to its original shell condition prior to the installation of any improvements, alterations, repairs or additions made by or for the benefit of Tenant. The alterations, repairs, additions and/or improvements to be removed by Tenant, in the event that a Removal Notice is timely given, shall include, but are not limited to, all heating, ventilating and air conditioning equipment, lighting and lighting fixtures, wall coverings, floor coverings, window coverings, trade fixtures, interior demising walls and partitions, and other items necessary to restore the Property to its original shell condition prior to the installation of any improvements, alterations, repairs or additions made by or for the benefit of Tenant. Landlord hereby waives its rights under Paragraph 6.05 of the Lease to require removal of any alterations, repairs, additions or improvements made prior to the date hereof in violation of Paragraph 6.05(a) of the Lease; provided, however, that such

waiver shall not affect the right of Landlord to require removal of Tenant improvements at the end of the Lease Term in accordance with this Subparagraph (c). Furthermore, the foregoing waiver with respect to Landlord's rights under Paragraph 6.05 of the Lease does not constitute any approval by Landlord of the quality of any such improvements or constitute any indication that such improvements are in compliance with applicable laws.

4. Landlord Indemnity. Landlord shall indemnify Tenant against and hold Tenant harmless from any and all costs, claims or liability arising from: (a) the breach or default in the performance of Landlord's obligations under the Lease, and (b) the negligence or willful misconduct of Landlord. Landlord shall reimburse Tenant for any legal fees or costs incurred by Tenant in connection with Landlord's breach of its obligations under the foregoing indemnity. The agreement by Landlord to indemnify Tenant set forth above is not intended to, and shall not relieve any insurance carrier of its obligations under policies required to be carried by Landlord or Tenant pursuant to the provisions of the Lease, as hereby amended, to the extent that such policies cover the results of such acts or conduct. Notwithstanding the foregoing, in no event shall the foregoing indemnity by Landlord obligate Landlord to compensate Tenant for consequential damages, lost profits or punitive damages, and Tenant hereby waives, relinquishes and releases any and all rights it may otherwise have to claim reimbursement from Landlord for consequential damages, lost profits or punitive damages.

5. Brokers. Except for CB Richard Ellis (Landlord's broker) and The Staubach Company (Tenant's broker) (collectively, the "**Brokers**"), Tenant and Landlord each represent and warrant to the other that neither have had any dealings with any person, firm, broker or finder in connection with the negotiation of this Third Amendment and/or consummation of the transaction contemplated hereby. Landlord shall be solely responsible for the payment of any and all commissions and other amounts due to either of the Brokers. Tenant and Landlord hereby agree to indemnify, defend, protect and hold harmless the other from and against liability for compensation or charges which may be claimed by any broker, finder or other similar party other than the Brokers by reason of any dealings or actions of the indemnifying party, including any costs, expenses, or attorneys' fees reasonably incurred with respect thereto.

6. General. If there is a conflict between the terms and conditions of this Third Amendment and the terms and conditions of the Lease, the terms and conditions of this Third Amendment shall control. Except as modified by this Third Amendment, all terms and conditions of the Lease shall remain unmodified and in full force and effect. Unless otherwise defined herein, capitalized terms used in this Third Amendment shall have the same meaning as capitalized terms used in the Lease.

7. Lender Approval; Conditions to Effectiveness. This Third Amendment shall be of no force or effect unless, on or before ten (10) business days after execution hereof, Landlord and State Farm Life Insurance Company ("**Lender**") shall have executed and delivered to Tenant a Subordination, NonDisturbance and Attornment Agreement in substantially the form attached hereto as **Exhibit "B"** (the "**Subordination Agreement**"), duly acknowledged before a Notary Public by both Landlord and Lender. Tenant shall, immediately after execution of this Third Amendment, execute and acknowledge before a Notary Public the Subordination Agreement, and deliver same to Landlord for submission to Lender. Landlord agrees forthwith to record the Subordination Agreement as executed and notarized by Landlord, Tenant and Lender.

8. ARBITRATION OF DISPUTES. IN THE EVENT THAT LANDLORD AND TENANT CANNOT AGREE ON AN ALTERNATIVE INDEX AS PROVIDED IN SECTION 2(b) ABOVE, OR IN THE EVENT OF ANY DISPUTE STATED TO BE SUBJECT TO ARBITRATION UNDER THE TERMS OF THE WORK LETTER CONDITIONS, THEN SUCH MATTER OR DISPUTE SHALL BE SUBMITTED FOR DECISION TO THE AMERICAN ARBITRATION ASSOCIATION IN LOS ANGELES COUNTY. IN ACCORDANCE WITH THE THEN RULES OF SAID ASSOCIATION AND THE DECISION OF THE ARBITRATOR SHALL BE BINDING UPON THE PARTIES, NOTWITHSTANDING ONE PARTY FAILING TO APPEAR AFTER DUE NOTICE OF THE PROCEEDING, THE COST OF THE ARBITRATORS SHALL BE PAID EQUALLY BY LANDLORD AND TENANT.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE “**ARBITRATION OF DISPUTES**” PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE “**ARBITRATION OF DISPUTES**” PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE “**ARBITRATION OF DISPUTES**” PROVISION TO NEUTRAL ARBITRATION

/s/ GLK

/s/ EJS KK

(Landlord initials)

(Tenant initials)

9. Counterparts and Facsimiles. This Third Amendment may be executed in counterparts. Each counterpart shall be deemed an original, and all counterparts shall be deemed the same instrument with the same effect as if all parties hereto had signed the same signature page. In addition, a copy of this Third Amendment executed by a party hereto and telecopied to the other party shall be deemed to constitute delivery of an originally executed copy of this Third Amendment to the other party. A facsimile signature shall be enforceable to the same extent as an original signature.

—Signatures on Next Page—

EXHIBIT "A"

WORK LETTER CONDITIONS

The provisions of these Work Letter Conditions are intended to be a part of and incorporated into the Third Amendment to Lease to which this Exhibit "A" is attached, as though set forth fully at length therein. All capitalized terms in the Third Amendment shall have the same meanings when used in this Exhibit "A."

1. Tenant Improvements, Enhancements and Repairs. All Tenant Improvements undertaken subsequent to the date of this Third Amendment shall be governed by these Work Letter Conditions. The parties acknowledge and agree that all of their obligations with respect to Tenant Improvements completed or to have been completed before the date of this Third Amendment have been fully satisfied and that, except as expressly set forth in this Third Amendment, neither party has any obligations with respect to any Tenant Improvements. The term "**Tenant Improvements**" shall include only alterations, repairs, modifications and improvements to the Property and shall not include any furniture, fixtures, equipment or personal property (collectively "**FF&E**"). Tenant improvements shall be categorized herein as (a) any improvements, alterations, repairs or modifications that require both building permits and the creation of plans and/or blueprints, or which will, as part of a separate project involve costs aggregating in excess of \$50,000.00, or any improvements, regardless of cost, visible from the exterior of the building (such Tenant Improvements are referred to herein as "**Substantial Improvements**"), (b) alterations, repairs, additions and/or improvements that require building permits but do not require or result in the creation of plans and/or blueprints (being referred to herein as "**Intermediate Improvements**"), and (c) any other alterations, repairs, additions and/or improvements (referred to herein as "**Minor Improvements**").

2. Tenant Improvement Allowance.

2.1 Tenant Improvement Allowance. Following satisfaction of the conditions set forth in Section 7 of this Third Amendment, and subject to the terms, conditions and procedures set forth in these Work Letter Conditions, Landlord shall reimburse Tenant for all costs and expenses incurred in connection with Tenant Improvements made to the Property, up to a maximum amount equal to the Tenant Improvement Allowance. Landlord shall in no event be required to reimburse Tenant for any costs incurred in connection with FF&E, or for any costs incurred in excess of the Tenant Improvement Allowance. To the extent that Tenant does not incur costs equal to or greater than the full amount of the Tenant Improvement Allowance, all undisbursed amounts of the Tenant Improvement Allowance shall be retained by Landlord and no longer be available to Tenant for any purpose.

2.2 Disbursement of the Tenant Improvement Allowance.

(a) Tenant Improvement Allowance Items. The Tenant Improvement Allowance shall be disbursed by Landlord for out-of-pocket costs (including without limitation sales and use taxes and Title 24 fees) incurred in connection with the Tenant Improvements (collectively the "**Tenant Improvement Allowance Items**"), subject to these Work Letter Conditions.

(b) Disbursement. During the construction of the Tenant Improvements, Landlord shall make disbursements of the Tenant Improvement Allowance for Tenant Improvement Allowance Items and shall release monies as follows:

(i) Disbursements. Not more often than once in any thirty (30) day period, Landlord shall disburse to Tenant, or upon written request from Tenant, Tenant's general contractor, monies from the Tenant Improvement Allowance, provided that Landlord has provided its approval for all Intermediate Improvements and Substantial Improvements as required in accordance with these Work Letter Conditions. In all events, as a condition to Landlord's obligations to make disbursements of the Tenant Improvement Allowance, Tenant shall deliver to Landlord: (A) invoices for labor rendered and materials delivered with respect to such payment request in an amount not less than the amount of the Tenant Improvement Allowance Tenant has requested be reimbursed; (B), with respect to all Substantial Improvements, and with respect to all Tenant Improvements made by any of Tenant's Agents who have taken such actions as may be required under California law to place themselves in a position to place mechanics' liens on the Property, copies of executed mechanic's lien releases which shall comply with the appropriate provisions of California Civil Code Section 3262(d). Within ten (10) business days after Landlord has received all of required documentation, Landlord shall deliver a check to Tenant or, at Tenant's request, to Tenant's general contractor, in an amount equal the amount requested.

(ii) Final Completion. Within thirty (30) days after any Substantial Improvements have been completed, Tenant shall deliver to Landlord (A) properly executed mechanics lien releases in compliance with California Civil Code Section 3262(d)(3) or Section 3262(d)(4); and (B) a certificate from the Architect (if any has been engaged) or from the Contractor in the case of design/build engagement, in a form reasonably acceptable to Landlord, certifying that the construction of the Tenant Improvements in the Property has been substantially completed. Within ten (10) business days after receiving the foregoing information, Landlord shall reimburse to Tenant any additional costs of constructing the Tenant Improvements to the extent not previously paid for in accordance with (i) above.

(iii) Excess Costs. All costs incurred by Tenant in excess of the sums to be disbursed by Landlord as the Tenant Improvement Allowance shall be paid for solely by Tenant. Tenant shall cause all Tenant Improvements to be made subject to no mechanics' liens or other encumbrances, and shall indemnify and hold harmless Landlord from and against any and all liens or encumbrances resulting from all Tenant Improvements (except to the extent that Landlord wrongfully withholds disbursement of the Tenant Improvement Allowance).

3. Plans and Permits: Approval by Landlord

3.1 Plans. Prior to the commencement of any Tenant Improvements, Tenant shall provide to Landlord such written description of the work (including plans and drawings of any sort, if any were prepared) as may have been prepared by Tenant in the ordinary course of business for its internal use. In the case of any Substantial Improvements, Landlord shall be provided with space plans and have the right of prior approval of such plans, which shall not be unreasonably withheld. In the case of any Intermediate Improvements, Landlord shall be provided with a written description thereof, and shall have the right of prior approval of such

Intermediate Improvements, which shall not be unreasonably withheld. If Landlord has not informed Tenant in writing within ten (10) business days of its objection to any Substantial Improvements and/or Intermediate Improvements, and the reasons therefore, such Substantial Improvements and/or Intermediate Improvements shall be deemed approved. If Landlord objects to any proposed Substantial Improvements and/or Intermediate improvements within such time period, Landlord and Tenant shall negotiate in good faith to resolve such objections. If such objections cannot be resolved within two (2) weeks following receipt of Landlord's written objection, the matter shall be referred to arbitration under the terms of Section 8 of the Third Amendment, and a period equal to the pendency of such arbitration shall be added to the period provided in the last sentence of Section 5 of these Work Letter Conditions.

3.2 Compliance with Laws. Tenant shall be solely responsible for constructing all Tenant Improvements in compliance with all laws, including obtaining any and all necessary permits. Tenant acknowledges and agrees that it may be obligated to modify, alter or upgrade the existing Property and the systems therein (including, but not limited to, areas unaffected by the Tenant Improvements) in order to complete the construction of the Tenant Improvements, and Landlord shall have no liability responsibility for modifying, altering or upgrading the Property or its existing systems.

4. Construction of Tenant Improvements.

4.1 Tenant's Selection of Contractors

(a) The Contractor. In the event of any Substantial improvements in connection with which Tenant shall hire a general contractor who shall be responsible for supervising subcontractors, such general contractor shall be selected by Tenant and approved by Landlord, which approval shall not be unreasonably withheld (the "**Contractor**").

(b) Tenant's Agents. All subcontractors, laborers, materialman, and suppliers used by Tenant (such subcontractors, laborers, materialman, and suppliers, and the Contractor to be known collectively as "Tenant's Agents") shall be properly licensed by the state of California and shall be experienced in performing the work they have agreed to perform in similar buildings.

4.2 Construction of Improvements; Tenant's Agents.

(a) Indemnity. Tenant's indemnification set forth in the Original Lease shall apply with respect to any and all damages, cost, loss or expense (including attorneys fees) related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements. By way of example, and not limitation, Tenant shall indemnify and defend Landlord from any Damages to the Property caused by the actions of the persons constructing the Tenant Improvements.

(b) Warranty. Tenant shall use commercially reasonable efforts to insure that any warranties made by any of Tenant's Agents or in connection with any goods utilized or incorporated into the Tenant Improvements shall be made available to Landlord in the event that the Lease is terminated during the pendency of such warranty.

(c) Compliance. The Tenant Improvements shall comply in all respects with the following: (i) all applicable building codes, laws and regulations; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters); and (iii) building material manufacturer's specifications.

(d) Inspection by Landlord. Landlord shall have the right to inspect all Substantial Improvements, provided, however, that Landlord's inspection of such Tenant Improvements shall not constitute Landlord's approval of the Tenant Improvements. Should Landlord reasonably disapprove any portion of the Tenant Improvements, Landlord shall notify Tenant in writing of such disapproval within five (5) business days of its inspection and shall specify the items disapproved (provided, however, that Landlord's sole right to disapprove any Tenant Improvements, other than those visible from the exterior of the building, shall be for defects in design or construction which renders such Improvements unsafe; and provided further that Landlord shall in no event have any right to disapprove any improvement which is constructed substantially in accordance with a previously approved plan). Any defects in the Tenant Improvements shall be rectified by Tenant at no expense to Landlord (provided, however, that Tenant may draw upon the Tenant Improvement Allowance with respect to expenses incurred in such rectification). If Tenant contests Landlord's objection to any improvements, Landlord and Tenant shall negotiate in good faith to resolve such objections. If such objections cannot be resolved within two (2) weeks following receipt of Tenant's written notice contesting such objection, the matter shall be referred to arbitration under the terms of Section 8 of the Third Amendment and a period equal to the pendency of such arbitration shall be added to the period provided in the last sentence of Section 5.

(e) Notice of Non-Responsibility. Not less than fifteen (15) days prior to the date Tenant intends to first commence construction of the Tenant Improvements. Tenant shall provide Landlord with written notice of its intention to commence construction. Landlord shall have the right from time to time to post notices of non-responsibility at the Property.

(f) Insurance. Tenant shall provide, or cause its general contractor to provide, builder's risk, worker's compensation, and other insurance as may be customarily required in connection with the construction of the Tenant Improvements, in such amounts as may be reasonably requested by Landlord.

4.3 Notice of Completion; Copy of Record Set of Plans. Within ten (10) days after completion of construction of the Tenant Improvements, and as a condition to Landlord's final reimbursement of the Tenant Improvement Allowance, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of Los Angeles County in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of the construction of any Substantial Improvements, Tenant shall, and if applicable shall cause the Architect and Contractor (if any) (i) to update the plans as necessary to reflect all changes made to the plans during the course of construction, (ii) to certify to the best of their knowledge that the "record-set" of as-built drawings are true and correct and (iii) to deliver to Landlord two (2) sets of copies of such record set of drawings, and

(b) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals (if any) and information relating to the improvements, equipment, and systems in the Property.

5. Completion. Subject to the performance by Landlord of its obligations with respect to the funding of the Tenant Improvement Allowance, Tenant agrees to cause all Tenant Improvements to be paid for at Tenant's sole cost and expense. Landlord shall have no obligation to make any disbursements from the Tenant Improvement Allowance after June 30, 2004, and Tenant shall have no right to receive further disbursements from the Tenant Improvement Allowance after June 30, 2004, provided, however, that this deadline shall be extended for so long as any amounts remain undisbursed due to Landlord's failure to fulfill its obligations under Section 2.2 regarding the timely disbursement of the Tenant Improvement Allowance.

6. Miscellaneous.

6.1 Tenant's Representative. Tenant has designated Shawn Lockard as its sole representative with respect to the matters set forth in this Work Letter Agreement and, until further notice to Landlord, Tenant's representative shall have full authority and responsibility to act on behalf of the Tenant as required in this Work Letter Agreement.

6.2 Landlord's Representative. Landlord has designated Jim Smith as its sole representative with respect to the matters set forth in this Work Letter Agreement and until further notice to Tenant, Landlord's representative shall have full authority and responsibility to act on behalf of the Landlord as required in this Work Letter Agreement.

6.3 Time of the Essence. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

6.4 Tenants Default. Notwithstanding any provision to the contrary contained in the Lease, if Tenant commits a default as defined in Article 10 of the Original Lease, and fails to cure such default during any applicable cure period, then, in addition to all other rights and remedies granted to Landlord pursuant to the Lease, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance, and (b) Landlord shall have no other obligations under the terms of this Third Amendment, including these Work Letter Conditions, until such time as such default is cured pursuant to the terms of the Lease. The failure of Tenant to perform any of its obligations under this Third Amendment, including these Work Letter Conditions, shall constitute a default under Section 10.02(c) of the Original Lease.

EXHIBIT "B"

This instrument was prepared by
and upon recordation should be
returned to:

(Space above This Line for Recorder's Use Only)

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENMENT AGREEMENT ("Agreement") made and entered into this _____ day of _____ 2002, by and among **KATELL VALENCIA ASSOCIATES**, a California limited partnership, whose mailing address is c/o Katell Properties, 11999 San Vicente Boulevard, Suite 200, Los Angeles, California 90049 (the "Landlord"), **3D SYSTEMS, INC.**, a California corporation, whose mailing address is 26081 Avenue Hall, Valencia, California 91355 (the "Tenant"), and **STATE FARM LIFE INSURANCE COMPANY**, an Illinois corporation, whose mailing address is One State Farm Plaza, Bloomington, Illinois 61710 ("State Farm");

WITNESSETH:

WHEREAS, Landlord and Tenant have heretofore entered into that certain Industrial Real Estate Lease dated January 1, 1989, as heretofore amended by Lease Amendment No. 1 dated May 28, 1993 and Lease Amendment No. 2 dated March 1, 1996 (said Industrial Real Estate Lease as heretofore amended is referred to herein as the "Lease") with respect to and governing the terms of Tenant's use and occupancy of all or a portion of certain real estate and improvements legally described on Exhibit A attached hereto and made a part hereof (the "Premises"); and

WHEREAS, State Farm has heretofore made a loan to Landlord in the original principal amount of Three Million Dollars (\$3,000,000) (the "Loan"), which is secured by a Mortgage and Security Agreement executed by Landlord to and in favor of State Farm (the "Mortgage") constituting a first lien upon and encumbering the Premises, and further secured by an Assignment of Rents and Leases executed by Landlord to and in favor of State Farm (the "Assignment of Rents and Leases") assigning to State Farm all leases of and all rents derived from the Premises, has required the execution of this Agreement; and

WHEREAS, Landlord and Tenant have entered into a Third Amendment to Lease dated August, 2002 (the "Third Amendment"), and, as a condition to the effectiveness of the Third Amendment, State Farm has been requested by Landlord to provide its written consent to the Third Amendment.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and to induce State Farm to give its consent to the Third Amendment, and in consideration of the sum of One Dollar (\$1.00) by each of the parties hereto paid to the other, receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby covenant, stipulate and agree as follows:

1. State Farm hereby consents to the Third Amendment, and Landlord and Tenant, by their execution hereof, hereby confirm that upon execution and delivery hereof by State Farm, the Third Amendment is deemed effective and the conditions set forth in Paragraph 7 of the Third Amendment are deemed satisfied (the Lease, as amended by the Third Amendment, is referred to herein as the "Amended Lease"), and any and all modifications thereof and amendments thereto, all of Tenant's rights thereunder and Tenant's leasehold interest and estate in the Premises shall be and are hereby made junior, inferior, subordinate and subject in all respects to the lien and encumbrance of the Mortgage on the Premises and to all renewals, modifications, consolidations, replacements and extensions of the Mortgage, to the full extent of the principal sum secured thereby, all interest thereon and all other sums due or hereafter becoming due thereunder.

2. Tenant agrees that it shall promptly deliver or mail to State Farm a copy of each written notice given by Tenant to Landlord of a default by the Landlord under the Amended Lease. Tenant further agrees that if, within the time provided in the Amended Lease to cure defaults thereunder, State Farm, at its option, shall elect to perform or cause to be performed the obligations with respect to which Landlord is in default under the Amended Lease, as specified in such written notice, any right of Tenant to terminate the Amended Lease by reason or on account of such default of Landlord shall cease and be null and void.

3. Tenant is advised and hereby acknowledges that the Mortgage, Assignment of Rents and Leases and other documents which evidence and secure the Loan (collectively the "Loan Documents") grant and provide to State Farm the right to collect rents and other sums payable under the Amended Lease (collectively, the "Rents") directly from Tenant upon the occurrence of an Event of Default by Landlord under the Loan Documents; Landlord and Tenant hereby agree that upon Tenant's receipt from State Farm of written notice of the occurrence of any Event of Default by Landlord under the Loan Documents, Tenant shall thereafter pay all Rents directly to State Farm (or as State Farm shall direct).

4. State Farm agrees that in the event it should become necessary for State Farm to foreclose the Mortgage, and provided that Tenant is not in default of its obligations under the Amended Lease, Tenant shall be entitled to continue in possession of the Premises undisturbed. State Farm further agrees that unless required by law, State Farm will not join Tenant as a defendant in any such foreclosure proceedings, and if such joinder is required by law, State Farm will not seek to terminate the Amended Lease or Tenant's possession of the Premises.

5. It is further agreed that in the event State Farm should succeed to the interest of the Landlord under the Amended Lease, State Farm agrees to be bound to the Tenant under the Amended Lease. The Tenant agrees from and after such event to attorn to State Farm. From the date of acquisition, Tenant shall have the same rights and remedies against and obligations to State Farm that Tenant has against and to the prior Landlord for any default that is in existence

and continues beyond the date of acquisition, as if the default occurred on the date of State Farm's acquisition. However, State Farm shall not be:

- (a) liable for the consequences of any act or omission of the prior Landlord that occurred prior to State Farm's acquisition;
- (b) subject to any offsets or defenses which the Tenant might have against the prior Landlord, for acts, omissions, or defaults which occurred prior to State Farm's acquisition;
- (c) bound by any rent or additional rent which the Tenant might have paid in advance for more than one month;
- (d) bound by any amendment or modification of the Amended Lease made after the date of this Agreement without State Farm's prior written consent; or
- (e) liable for any security deposit, unless actually received by State Farm from the prior Landlord.

6. Tenant agrees that notwithstanding anything to the contrary contained in this Agreement, in the Amended Lease or in any other instrument, any interest of the Tenant in or under any option to purchase or right of first refusal of, or with respect to all or any part of the Premises is hereby specifically subordinated to the rights of State Farm under the Mortgage and other Loan Documents and such option to purchase or right of the first refusal shall not be binding upon State Farm, its successors and assigns.

7. This Agreement shall be binding upon and inure to the benefit of the parties hereto and shall also bind and benefit the heirs, legal representatives, successors and assigns of the respective parties hereto, and all covenants, conditions and agreements herein contained shall be construed as running with the title to the land comprising the Premises.

8. Landlord and Tenant hereby waive to the fullest extent permitted by applicable law, the right to trial by jury in any action, proceeding or counterclaim filed by any party, whether in contract, tort or otherwise relating directly or indirectly to this Agreement or any acts or omissions of the Landlord and Tenant in connection therewith or contemplated thereby.

—Signatures on Next Page—

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed as of the day and year first above written.

“LANDLORD”

KATELL VALENCIA ASSOCIATES,
a California limited partnership

By: Katell Family Company II,
a California limited liability company,
General Partner

By: _____ /s/ GERALD L. KATELL

Gerald L. Katell,
Manager

“TENANT”

3D SYSTEMS, INC.
a California corporation

By: _____ /s/ E. JAMES SELZER

Print Name: E. James Selzer
Print Title: CEO

By: _____ /s/ KEITH KOSCO

Print Name: Keith Kosco
Print Title: General Counsel and
Assistant Secretary

—Signatures Continued on Next Page—

STATE FARM:

State Farm Life Insurance Company,
an Illinois corporation

By: _____

Print
Name : _____
Print
Title: _____

By: _____

Print Name: _____
Print Title: _____

Address:

One State Farm Plaza
Bloomington, Illinois 61710
Corporate Law-Investments E-8
Attn: (Name of Attorney)

BRIAN K. SERVICE, INC.
123 Red Hill Circle
Tiburon, CA 94920
Ph: 415/435-9706
Fax: 415/435-6570

November 18, 2003

Mr. G. W. Loewenbaum
 Chairman
 3D Systems, Inc.

Dear Mr. Loewenbaum:

I am writing this letter pursuant to your request to set forth the terms and conditions upon which Brian K. Service, Inc. (a California corporation) ("BKS") will be engaged to perform certain management services, and to arrange for the provision of management services by others, for 3D Systems Corporation, a Delaware corporation, and its wholly owned and controlled subsidiaries (collectively, "3D Systems" and the "Company") under certain guarantees and indemnities to be provided by 3D Systems.

Under the terms of this agreement, BKS shall (a) locate, engage and provide the services of qualified consultants acceptable to the Company in such fields as the Company may reasonably request from time to time, which may include without limitation the fields of finance, accounting, strategic planning, sales, marketing, management and human resources; and (b) provide such other consulting services as the Company may from time to time request.

BKS will provide the work product included in this agreement for the agreed-upon terms and conditions set out below, and as set out in the attached Term Sheet. The terms of engagement for any consultants whose services are provided hereunder (including without limitation their qualifications and the scope of their engagements) shall be as mutually determined by BKS and the Company.

Fees: During the Term (as defined herein), BKS will be compensated for its services under this agreement as follows:

- a. A monthly fee of \$15,000; plus
- b. Additional compensation (the "Consultant-Based Fees") at the rate of \$15,000 per week per consultant engaged during that week, such amount to be prorated for services provided for less than one week, subject to a Profit Cap equal to \$130,000. For purposes of this agreement, the Profit Cap shall be computed based upon the aggregate payments by the Company to BKS for all consultants during the Term less the Direct Compensation Costs of the consultants paid by BKS. For

purposes of this agreement, Direct Compensation Costs shall include amounts paid directly to the consultants by BKS for services rendered to the Company, employment taxes applicable thereto, and the costs of providing any employee benefits which may be offered by BKS to the consultants including deferred compensation and other welfare benefits. BKS shall provide invoices with respect to the services described above, which invoices shall include the information and calculation of the Direct Compensation Costs. If during the Term, the aggregate Consultant-Based Fees paid to BKS in excess of the Direct Compensation Costs equal the Profit Cap, thereupon, the Consultant Based Fees for the remainder of the Term shall be reduced to be equal to the Direct Compensation Costs. If during the Term, the aggregate Consultant-Based Fees paid to BKS in excess of the Direct Compensation Costs exceed the Profit Cap, BKS immediately shall refund such excess to the Company. The Profit Cap is applicable for every 12 month period of this agreement and, for any shorter period shall be pro-rated accordingly.

Term of the Agreement: The term of this agreement (the "Term") shall be for eleven (11) months and shall automatically be extended thereafter until terminated pursuant to the termination provisions set forth in this paragraph. Following the initial Term of this agreement, either party may provide 90 days advance written notice to the other party terminating this agreement. 3D Systems may discharge BKS immediately upon receipt by BKS of written notice for (i) any material breach or threat of material breach of this agreement, or (ii) impossibility of performance (defined below), or if the employment agreement dated October 15, 2002, between Brian Service and the Company is terminated by the Company for cause.

Impossibility of Performance: Neither BKS nor the Company will be liable in damages for any delay, default or breach which is caused by conditions beyond its control, including but not limited to Acts of God, governmental or self-regulatory organization restrictions (including the requirements of any applicable securities law or listing requirement), continuing domestic or international problems such as war or insurrection, strikes, fire, flood, work stoppages, embargoes, and or lack of materials; provided, however, that any party shall have the right to terminate this agreement, effective immediately upon receipt of written notice, if the other party is unable to fulfill its obligations hereunder due to any of the above-mentioned causes.

Expenses: BKS shall be entitled to reimbursement for any out of pocket costs incurred by any of its personnel in connection with the performance of its obligations hereunder, and incurred by the consultants provided in accordance with the terms hereof in the fulfillment of their terms of engagement.

Indemnification: Except in the case of willful misconduct or gross negligence, the Company shall indemnify, defend, and hold BKS, its officers, directors, principals, and associates, affiliates, employees, agents, and counsel, harmless against any damages, costs, fines, penalties, liabilities, attorneys' and others professional fees and disbursements, suffered, incurred by, or asserted against, BKS, its officers, directors, principals, and associates, affiliates, employees, agents, and/or counsel, including any amounts incurred or paid in settlement or any judgment of any action, suit, or proceeding brought under any statute, at common law, or otherwise, which arises under or in connection with the performance by BKS of services pursuant to this agreement and any amendment or modification thereto. The obligations of 3D Systems under this paragraph are hereinafter collectively referred to as "Indemnity Obligations." The Indemnity Obligations shall survive, for a period of five (5) years, any termination of BKS' services under this agreement and any amendment or modification thereto. The Company agrees to promptly tender any payments due BKS, its officers, directors, principals and associates, affiliates, employees, agents, and/or counsel, under or in respect of the Indemnity Obligations, within three (3) business days following written demand by BKS, its officers, directors, principals, and associates, affiliates, employees, agents and/or counsel.

Miscellaneous

At the request of the Company, BKS shall execute, and shall cause any consultants proposed by BKS to execute, such confidentiality agreements and agreements regarding intellectual property as the Company deems appropriate with respect to each engagement. BKS agrees that, during the term of this agreement, it will not engage, or act as advisor or consultant to, any entity or individual which engages in activities competitive with those of the Company.

This agreement shall inure to the benefit of and be binding upon the respective heirs, executors, successors, representatives, and assigns of the parties, as the case may be; provided, however, the obligations hereunder of each party to the other are personal and may not be assigned without the express written consent of such other party. The

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DEBENTURE PURCHASE AGREEMENT

THIS DEBENTURE PURCHASE AGREEMENT (this "Agreement") is dated as of December 19, 2001 among 3D Systems Corporation, a Delaware corporation (the "Company"), and each purchaser listed on Schedule I hereto (collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to the Purchasers, and the Purchasers desire to purchase and acquire from the Company, an aggregate principal amount of up to \$10,000,000 of convertible subordinated debentures (the "Debentures").

Terms used and not defined herein shall have the meanings given them in Exhibit A attached hereto.

NOW THEREFORE, in consideration of the promises and mutual covenants and agreements hereinafter, the Company and the Purchasers hereby agree as follows:

**ARTICLE I.
PURCHASE AND SALE OF DEBENTURES**

1.1. Purchase and Sale of Debentures.

The Company agrees to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, agrees to purchase and acquire from the Company, the principal amount of Debentures set forth opposite such Purchaser's name on Schedule I, for the consideration set forth on Schedule I.

1.2. Closing.

The closing (the "Closing") of the purchase and sale (the "Purchase") of Debentures shall take place at the offices of Akin, Gump, Strauss, Hauer & Feld, L.L.P., 2029 Century Park East, 24th Floor, Los Angeles, California 90067, or by transmission by facsimile and overnight courier, immediately following the execution hereof, or on such later date or at such different location as the parties shall agree (the "Closing Date").

**ARTICLE II.
AMOUNT AND TERMS OF NOTES; PAYMENTS**

2.1. Debentures. The Debentures shall be in the form attached hereto as Exhibit B and shall have a maturity and accrue interest as set forth therein, which interest shall be payable in the manner set forth therein.

2.2. Redemption.

a. Optional Redemption. The Debentures will not be redeemable at the option of the Company prior to the third anniversary of the Closing Date. At any time or in part from time to time after the third anniversary of the Closing Date, the Debentures may be redeemed at the option of the Company at a price equal to 107% of the then outstanding principal amount of the Debentures or the portion thereof then being redeemed (the "Redemption Price") together with all accrued and unpaid interest and other amounts due in respect thereof to the Redemption Date (as defined below); provided, however, that the Company may not redeem the Debentures: (i) if the Company is in default of the Existing Bank Debt; (ii) if redemption of the Debentures would result in the Company being in violation of any of its covenants under the Existing Bank Debt; or (iii) without prior written consent from U.S. Bank.

b. Mechanics of Redemption. The Company shall exercise its right to redeem by delivering written notice by facsimile and overnight courier ("Notice of Company Redemption") to each Holder (the first full Business Day following such notice being referred to herein as the "Redemption Notice Date"). Such Notice of Company Redemption shall indicate (A) the maximum, if any, aggregate dollar amount of Redemption Price which the Company will pay for such Redemption, (B) each Holder's pro rata allocation of such maximum amount, (C) the Redemption Price, (D) confirm the date ("Redemption Date") the Company shall effect the Redemption, which date shall be not less than ten (10) Business Days and not more than sixty (60) calendar days after the Redemption Notice Date, (E) confirm that the Holder will have the right to convert such Holders Debentures until the close of business on the fifth day (or if such day is not a Business Day, the next succeeding Business Day) preceding the related Redemption Date. If the Company elects not to redeem all the Debentures outstanding, the Company shall allocate for redemption from each Holder an amount of the Redemption Price equal to such Holder's pro rata amount (based on the principal amount of the Debenture held by such Holder on the date of the Notice of Company Redemption relative to the total principal of the Debentures outstanding on such date).

c. Payment of Redemption Price. The Company shall pay the applicable Redemption Price to the Holder of the Debentures being redeemed in cash on the Redemption Date.

d. Mandatory Redemption. If there shall occur a Change of Control with respect to the Company, then a Holder shall have the right, at such Holder's option, exercised in accordance with this Section 2.2, to require the Company to purchase the Debenture in whole but not in part, on the Holder Redemption Date at the Redemption Price. The Company shall provide notice to each Holder within ten (10) Business Days of learning of the occurrence of a Change of Control (a "Change of Control Notice Date"). The notice shall provide (A) the Holder Redemption Date in respect of such Change of Control, (B) the Redemption Price, (C) that payment will be made upon presentation and surrender of the Debentures to be redeemed, (D) that the Holder will have the right to convert such Holder's Debentures until the close of business on the fifth day (or if such day is not a Business Day, the next succeeding Business Day) preceding the related Holder Redemption Date, and such other information as the Company shall deem advisable. Each Holder desiring to exercise the option for redemption set forth in this Section 2.2 shall, as a condition to such redemption, on or before the close of business on the

fifth Business Day prior to the Holder Redemption Date, surrender the Debenture to be redeemed, in whole but not in part, together with the Redemption Notice hereon duly executed at the place or places specified in the Redemption Notice. In connection with any repurchase of Debentures pursuant to this Section 2.2, the Company will comply with any applicable rules and regulations promulgated by the Securities and Exchange Commission (the "Commission") and nothing herein, including the time periods in which redemption is to occur, shall require the Company to take action which violates such applicable rules and regulations.

2.3 Conversion.

a. Right of Holders to Convert Debentures into Common Stock. Subject to and upon compliance with the provisions of this Section 2.3, all or any portion of the principal amount of the Debentures (and any accrued but unpaid interest thereon), at any time from the date hereof to the close of business on the earlier of (i) the Maturity Date or (ii) the close of business on the fifth day (or if such day is not a Business Day, the next succeeding Business Day) preceding the Redemption Date or Holder Redemption Date, as applicable, may be converted into duly authorized, validly issued, fully-paid and nonassessable shares of Common Stock of the Company at a conversion price per share equal to \$12.00 (the "Conversion Price"), or, in the event that any adjustment in the Conversion Price or the securities or other property issuable upon conversion has taken place pursuant to Section 2.4, then at the applicable Conversion Price and into such securities or other property as so adjusted, upon surrender of the Debentures, the principal amount of which is so to be converted, to the Company at any time during usual business hours at the Company's offices, accompanied by a written notice of election to convert as provided in the form attached hereto as Exhibit C. In order for such written notice to be effective (a "Notice of Conversion"), such notice must (i) state that the Holder irrevocably elects to make such conversion, (ii) specify the principal amount of the Debenture to be converted, and (iii) include the name or names (with address and social security number or other taxpayer identification number, as applicable) in which the certificates of Common Stock are to be issued (and, if different than the Holder, accompanied by a written instrument or instruments of transfer in form reasonably satisfactory to the Company).

b. Issuance of Shares Upon Conversion. As soon as practicable after delivery of a Notice of Conversion and the surrender of the Debentures for conversion, the Company shall deliver or cause to be delivered to, or upon the written order of, the Holder of the Debentures a certificate or certificates representing the number of duly authorized, validly issued, fully-paid and nonassessable shares of Common Stock, into which the Debentures (together with any other Debentures of such Holder being converted) may be converted in accordance with the provisions of this Section 2.3. Such conversion shall be deemed to have been made at the time and on the date the Notice of Conversion is delivered to the Company (the "Conversion Date") and the rights of the Holder of such Debentures as a Holder (subject to the Company's satisfaction of its obligations hereunder with respect to such conversion) shall cease at such time with respect to the Debentures being converted; the Person or Persons entitled to receive the shares of Common Stock upon conversion of such Debentures shall be treated for all purposes as having become the record holder or holders of such shares of Common Stock at such time and such conversion shall be at the Conversion Price in effect at such time. In the case of any Debenture which is converted in part only, upon such conversion the Company shall execute and deliver to the

Holder thereof, as requested by such Holder, a new Debenture in aggregate principal amount equal to the unconverted portion of such Debenture.

c. Fractions of Shares. No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon conversion of Debentures. If more than one Debenture shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Debentures (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Debenture or Debentures (or specified portions thereof), the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Per Share Market Price of Common Stock on the close of business on the day of conversion.

2.4 Adjustments to Conversion Price.

a. If the Company, at any time while the Debentures are outstanding, takes any of the actions described in this Section 2.4, then, in order to prevent dilution of the rights granted under the Debentures, at any time prior to the Maturity Date, the Conversion Price will be subject to adjustment from time to time as provided in this Section 2.4.

b. In case at any time the Company shall pay or make a stock dividend or other distribution on any class of capital stock of the Company in shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced so that the same shall equal the price determined by multiplying such Conversion Price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares of Common Stock constituting such dividend or other distribution, such adjustment to become effective immediately after the opening of business on the day following the date fixed for such determination; and in the event that such dividend or other distribution is not made, or is made in part, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect (i) if such record date has not been fixed or (ii) based on the actual number of shares actually issued, as the case may be.

c. In the case at any time the Company shall (A) subdivide its outstanding shares of Common Stock into a greater number of shares, (B) combine its outstanding shares of Common Stock into smaller number of shares, or (C) issue by reclassification of its shares of Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation) any shares of capital stock, the Conversion Price in effect at the effective date of such subdivision, combination or reclassification shall be proportionally adjusted so that the Holder of any Debenture surrendered for conversion after such time shall be entitled to receive the aggregate number and kind of shares of Common Stock which, if such Debenture had been converted immediately prior to such time, the Holder would have owned upon such conversion and been entitled to receive upon such subdivision, combination or reclassification. Such adjustment shall become effective immediately after the

effective date of such subdivision, combination or reclassification. Such adjustment shall be made successfully whenever any event listed above shall occur.

d. In case at any time the Company shall fix a record date for the issuance of rights, options or warrants to all holders of its Common Stock entitling them to subscribe for or purchase Common Stock (or securities convertible into Common Stock) at a price per share less than the Current Market Price per share of Common Stock on such record date, the Conversion Price in effect at the opening of business on the day following such record date shall be reduced so that the same shall equal the price determined by multiplying such Conversion Price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on such record date plus the number of shares of Common Stock (or its equivalent) which the aggregate of the offering price of the total number of shares so offered for subscription or purchase would purchase at such Current Market Price per share of Common Stock and the denominator shall be the number of shares of Common Stock outstanding at the close of business on such record date plus the number of shares of Common Stock (or its equivalent) so offered for subscription or purchase, such reduction to become effective immediately after the opening of business on the day following such record date; provided, however, that no adjustment to the Conversion Price shall be made pursuant to this Section 2.4(e) if the Holders of Debentures receive, or are entitled to receive upon conversion or otherwise, the same rights, options, or warrants as are issued to the holders of Common Stock, on the same terms and conditions as such rights, options or warrants are so issued to the holders of Common Stock. Such reduction shall be made successfully whenever such record date is fixed; and in the event that such rights, options, or warrants are not so issued in part, or are issued but all or part of which would then be in effect (i) if such record date had not been fixed or (ii) based on the actual number of rights, options or warrants actually issued, as the case may be.

e. In case at any time the Company shall fix a record date for the making of a distribution, by dividend or otherwise, to all holders of its shares of Common Stock, of evidences of its indebtedness or assets (including securities, but excluding (x) any dividend or distribution referred to in subsection (c) and any rights, options or warrants referred to in subsection (e), and (y) any dividend, return of capital or distribution paid in cash out of the retained earnings of the Company and regular quarterly dividends consistent with past practices), then in each such case the Conversion Price in effect after such record date shall be determined by multiplying the Conversion Price in effect immediately prior to such record date by a fraction, of which the numerator shall be the total number of outstanding shares of Common Stock multiplied by the Current Market Price per share of Common Stock on such record date, less the fair market value (as determined by a resolution of the Board of Directors) of the portion of the assets or evidences of indebtedness so to be distributed, and of which the denominator shall be the total number of outstanding shares of Common Stock multiplied by the Current Market Price per share of Common Stock. Such adjustment shall be made successively whenever such a record date is fixed and shall become effective immediately after the record date for determination of stockholders entitled to receive the distribution; and in the event that such distribution is not so made, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such record date has not been fixed.

2.5 Manner and Treatment of Payments.

a. Each payment to be made on the Debentures by the Company shall be made to the Purchasers, at such bank as the Purchasers may designate to the Company, in immediately available funds not later than 5:00 p.m., Eastern Time, on the day payment is due (which must be a Business Day). All payments received after 5:00 p.m., Eastern Time, on any Business Day, shall be deemed received on the next succeeding Business Day. All payments shall be made in lawful money of the United States of America.

b. Each payment or prepayment on account of the Debentures shall be applied, pro rata according to the principal amount outstanding of the Debenture, held by each Holder, in the following order of priority:

First, for fees and expenses under this Agreement and the Debentures;

Second, for interest due and payable on the Debentures;

Third, for interest accrued on the Debentures; and

Fourth, for payments of principal on the Debentures.

**ARTICLE III.
REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

The Company represents and warrants to each Purchaser as follows:

3.1 Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority to conduct its business as now conducted and as proposed to be conducted and to enter into and perform this Agreement and each other Transaction Document. The execution, delivery and performance by the Company of this Agreement and each other Transaction Document has been duly authorized by all necessary corporate action of the Company, its officers, directors and stockholders and this Agreement and each other Transaction Document has been duly executed and delivered by the Company. This Agreement and each other Transaction Document constitutes the valid and binding obligation of the Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent any indemnification provisions may be limited by applicable federal or state securities laws.

3.2 Issuance of Debentures. The issuance, sale and delivery of the Debentures in accordance with this Agreement have been duly authorized by all necessary corporate action on the part of the Company. The Debentures when so issued, sold and delivered against payment therefor in accordance with the provisions of this Agreement will be duly and validly issued, fully paid and nonassessable.

3.3. Company Capitalization. The Company has an authorized capitalization consisting of: (i) 25,000,000 shares of common stock, \$.001 par value, of which 13,124,486 shares of common stock are issued and outstanding and (ii) 5,000,000 shares of preferred stock, \$.001 par value, of which no shares of preferred stock are issued and outstanding. All such outstanding shares have been duly authorized and validly issued and are fully paid and nonassessable.

3.4. Conflicting Agreements and Other Matters. The execution, delivery and performance by the Company of this Agreement and compliance by the Company with the terms and provisions hereof and the issuance of the Debentures by the Company, does not violate in any material respect any provision of any law, rule or regulation, order, writ, judgment, decree, determination or award to which the Company is a party or by which the Company is bound, or conflict with or result in a breach of, the Certificate of Incorporation or bylaws of the Company.

3.5. Consents and Approvals. Assuming the correctness of the representations by the Purchasers in Article IV, no authorization, consent, approval, license, qualification or exemption from, nor any filing, declaration or registration with, any court, any federal or state governmental agency or regulatory authority or any securities exchange or any other person or entity, other than authorizations, consents, approvals, licenses or qualifications to do business in the states as a foreign corporation and required pursuant to state "blue sky" laws (collectively, "Approvals") is required in connection with the execution, delivery or performance by the Company of this Agreement on or prior to the date hereof or the issuance of the Debentures (except such as have been obtained and are in full force and effect).

3.6. SEC Reports. Since January 1, 1998, as of their respective dates, the reports and statements filed by the Company with the Commission complied as to form in all material respects with the requirements applicable thereto and did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited financial statements and unaudited interim financial statements of the Company included or incorporated by reference in such reports and statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be indicated therein or in the notes thereto) and fairly present the consolidated assets, liabilities and financial position of the Company as at the dates thereof and the consolidated results of operations and changes in financial position for the periods then ended, subject in the case of the unaudited interim financial statements, to normal, recurring year-end adjustments and any other adjustments described therein.

**ARTICLE IV.
REPRESENTATIONS AND WARRANTIES OF PURCHASERS**

Each of the Purchasers, severally and not jointly, hereby represents and warrants to the Company as follows:

4.1. Organization; Authority. If Purchaser is an entity, such Purchaser is an entity duly formed, validly existing and in good standing under the laws of the jurisdiction of its

incorporation or formation with the requisite power and authority, corporate or otherwise, to enter into and to consummate the transactions contemplated by this Agreement and each other Transaction Document. The purchase by such Purchaser of the Debentures hereunder has been duly authorized by all necessary action on the part of such Purchaser. This Agreement and each other Transaction Document constitutes the valid and binding obligation of such Purchaser, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent any indemnification provisions may be limited by applicable federal or state securities laws. The execution, delivery and performance of the terms of this Agreement and each other Transaction Document and compliance by such Purchaser with the terms and provisions hereof and thereof does not violate in any material respect any provision of any law, rule or regulation, order, writ, judgment, decree, determination or award to which such Purchaser is a party or by which such Purchaser is bound.

If Purchaser is an individual, the execution, delivery and performance of the terms of this Agreement and each other Transaction Document has been duly authorized by all necessary action on behalf of such Purchaser, and this Agreement and each other Transaction Document has been duly executed and delivered by such Purchaser. This Agreement and each other Transaction Document constitutes the valid and binding obligation of such Purchaser, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent any indemnification provisions may be limited by applicable federal or state securities laws. The execution, delivery and performance of the terms of this Agreement and each other Transaction Document and compliance by such Purchaser with the terms and provisions hereof and thereof does not materially violate any provision of any law, rule or regulation, order, writ, judgment, decree, determination or award to which the Purchaser is a party or by which such Purchaser is bound.

4.2. Investment Intent. Such Purchaser is acquiring the Debentures for its own account and not with a present view to or for distributing or reselling the Debentures or any part thereof or interest therein in violation of the Securities Act.

4.3. Accredited Investor. At the time such Purchaser was offered the Debentures and at the date hereof, (i) it was and is an "accredited investor" as defined in Rule 501 under the Securities Act and (ii) such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Debentures.

4.4. Disclosure of Information. Purchaser has received and reviewed all the information it considers necessary or appropriate for deciding whether to purchase the Debentures. Purchaser further represents that Purchaser is relying solely on Purchaser's own expertise and that of Purchaser's consultants, and not on any representation of the Company not expressly contained in this Agreement. Purchaser has had an opportunity to ask questions and

receive answers from the Company regarding the terms and conditions of the offering of the Debentures and the business, properties, prospects and financial condition of the Company.

4.5. Reliance. Such Purchaser understands and acknowledges that (i) the Debentures are being offered and sold to such Purchaser without registration under the Securities Act in a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act or Regulation D promulgated thereunder and (ii) the availability of such exemption depends in part on, and the Company will rely upon the accuracy and truthfulness of, the representations set forth in this Article IV, and such Purchaser hereby consents to such reliance.

4.6. Principal Place of Business. Such Purchaser, if an entity, has its principal place of business or, if an individual, maintains his/her residence, as set forth immediately below such Purchaser's name on Schedule II hereto.

ARTICLE V. COVENANTS

5.1. Affirmative Covenants. Until payment in full of the Debentures, the Company will:

a. Financial Statements. Furnish to each Purchaser (i) as soon as available, but in no event more than 55 days following the end of each fiscal quarter, copies of its consolidated quarterly balance sheets, income statements and other cash flow statements, and (ii) as soon as available, but in no event more than 120 days following the end of each fiscal year, a copy of its annual consolidated audit report and financial statements.

b. Corporate Existence. Maintain its existence in good standing and qualify and remain qualified to do business in each jurisdiction in which the character of the properties owned or leased by it therein or in which the transaction of its business is such that the failure to maintain such existence or to qualify would have a Material Adverse Effect.

c. Maintenance of Records. Maintain complete and accurate books and records in which complete and correct entries shall be made of all dealings and transactions in its respective business and activities.

d. Further Assurances. Do all acts and things as may be required by law or as, in the reasonable judgment of the Purchasers, may be necessary or advisable to carry out the intent and purpose of this Agreement.

5.2. Negative Covenants. Until payment in full of the Debentures, the Company will not, without the consent of Holders holding at least two-thirds of the then outstanding principal amount of Debentures:

a. Indebtedness. Issue any convertible indebtedness which is subordinated to the Senior Indebtedness and senior in right of payment to the Debentures.

b. Charter Amendments. Amend, restate, supplement or otherwise modify any of the provisions of its Certificate of Incorporation or bylaws in any way that could reasonably be expected to have a Material Adverse Effect on the Debentures or the Common Stock of the Company.

c. Dividends. In any one fiscal year declare or make payment of any cash dividends on the Common Stock of the Company which in the aggregate constitutes in excess of fifty percent (50%) of the Company's net income for the previous year as computed in accordance with GAAP, consistently applied.

d. Sale of Assets. Sell, lease, convey or transfer all or substantially all of its assets (computed on a consolidated basis), whether in a single transaction or a series of related transactions. For purposes of this section, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the assets of one or more subsidiaries of the Company, which assets, if held by the Company instead of such subsidiaries, would constitute all or substantially all of the assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the assets of the Company.

5.3. Registration Statement Filing.

a. As promptly as reasonably practicable following the Closing, the Company shall file with the Commission a registration statement (the "Registration Statement") on any appropriate form under the Securities Act with respect to the offering and sale or other disposition of the shares of Company's common stock underlying the Debentures (the "Shares"). The Company agrees to use all reasonable efforts to cause the Registration Statement to become effective as soon as reasonably practicable following its filing. Each Purchaser agrees to cooperate with and provide assistance to the Company in connection with the registration and sale of the Shares.

b. The Company agrees that it will: (i) prepare and file with the Commission, any amendments or supplements to the Registration Statement or prospectus which is a part thereof which may be necessary to keep the Registration Statement effective and to comply with the provisions of the Securities Act with respect to the offer of the Shares covered by the Registration Statement for a period of the earlier of two (2) years from the effective date of the Registration Statement and the date when all Shares covered by the Registration Statement have been sold or otherwise disposed; (ii) prepare and promptly file with the Commission and promptly notify each Purchaser of the filing of such amendment or supplement to the Registration Statement or prospectus as may be necessary to correct any statement therein or omission therefrom if at any time when a prospectus relating to the Shares is required to be delivered under the Securities Act, any event with respect to the Company shall have occurred as a result of which any prospectus would include an untrue statement of material fact or omit to state any material fact necessary to make the statements therein not misleading; (iii) in case any of the Purchasers are required to deliver a prospectus, prepare promptly such amendment or amendments to the Registration Statement and such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Securities Act; (iv) advise each Purchaser promptly after the Company shall receive notice or obtain knowledge of the issuance of any stop order by the Commission suspending the effectiveness of the

Registration Statement or amendment thereto or of the initiation or threatening of any proceedings for that purpose, and promptly use its commercially reasonable efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued; (v) use its reasonable efforts to qualify the Shares for sale under the securities or "blue sky" laws of such states within the United States as each Purchaser may reasonably designate; and (vi) furnish to each Purchaser, as soon as available, copies of the Registration Statement and each preliminary and final prospectus, or supplement or amendment required to be prepared with respect thereto, all in such quantities as they may from time to time reasonably request.

c. The Company shall pay all expenses incurred by it incident to the registration of the Shares under this Section 5.3 including, without limitation, all registration and filing fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, premiums and other costs of policies of insurance purchased by the Company at its option against liabilities arising out of the public offering of such Shares. With respect to sales of Shares, each Purchaser shall pay all underwriting discounts and commissions and fees of underwriters, selling brokers, dealer managers or similar securities industry professional relating to the distribution of the Shares, the fees and disbursements of counsel retained by each Purchaser and transfer taxes, if any.

d. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each Purchaser, its officers, directors and employees and each person who controls each Purchaser (within the meaning of the Securities Act) against all losses, claims, damages, liabilities and expenses caused by any untrue or alleged untrue statement of a material fact contained in the Registration Statement or prospectus or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as the same are caused by or contained in any information furnished in writing to the Company by any of the Purchasers expressly for use therein. Promptly after receipt by each Purchaser under this Section 5.3(d) of notice of the commencement of any action (including any governmental action), each Purchaser will, if a claim in respect thereof is to be made against the Company under this Section 5.3(d), notify the Company in writing of the commencement thereof and the Company shall have the right to participate in, and, to the extent the Company so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that each Purchaser shall have the right to retain its own counsel, with the fees and expenses to be paid by the Company, if representation of such Purchaser by the counsel retained by the Company would be inappropriate due to actual or potential differing interests between such Purchaser and any other party represented by such counsel in such proceeding. The failure to notify the Company within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve the Company of any liability to such Purchaser under this Section 5.3(d) but the omission so to notify the Company will not relieve it of any liability that it may have to such Purchaser otherwise than under this Section 5.3(d).

**ARTICLE VI.
EVENTS OF DEFAULT**

6.1. Events of Default. Each of the following events shall be an “Event of Default” for purposes of this Agreement:

a. The Company fails to pay any principal of any Debenture when due and payable, or fails to pay any installment of interest upon any Debenture when due and payable, and such default continues for ten days following receipt by the Company of written notice thereof; or

b. Default occurs in the due observance or performance of any term, covenant or agreement contained in this Agreement or any other Transaction Document, and such default continues unremedied for a period of 30 days following receipt by the Company of written notice thereof; or

c. An involuntary case or other proceeding is commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any applicable Debtor Relief Law now or hereafter in effect or seeking the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of it or any substantial part of its Property, and such involuntary case or other proceeding remains undismissed and unstayed, or an order or decree approving or ordering any of the foregoing is entered and continues unstayed and in effect, in any such event, for a period of 60 days; or

d. The Company commences a voluntary case or proceeding under any applicable Debtor Relief Law or any other case or proceeding to be adjudicated a bankrupt or insolvent, or consents to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against any of them, or any of them files a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, or consents to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or any substantial part of its Property, or any of them makes an assignment for the benefit of creditors, or admits in writing the inability to pay its debts generally as they become due, or the Company takes corporate action in furtherance of any such action; or

6.2. Remedies. If any Event of Default specified in Section 6.1 shall have occurred and be continuing, Holders holding at least a majority of the principal amount of Debentures then outstanding may by written notice to the Company declare all Debentures to be forthwith due and payable, whereupon all such Debentures shall, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Company, become immediately due and payable.

**ARTICLE VII.
SUBORDINATION**

7.1. Debentures to be Subordinated to Senior Indebtedness. Each Purchaser and other holder of the Debentures (such Purchasers and such holders being hereinafter referred to collectively as "Holder") by its acceptance thereof covenants and agrees to negotiate in good faith and execute and deliver such further agreements as may be reasonably required to subordinate all payments of principal of, and interest on, the Debentures and all other obligations of the Company pursuant to this Agreement to the prior payment in full of all Senior Indebtedness of the Company.

**ARTICLE VIII.
INDEMNIFICATION**

8.1. Indemnification by the Company. The Company shall defend, protect, indemnify and hold harmless each Purchaser, and their successors and assigns, each other permitted transferee of the Debentures and all of their officers, directors, and employees (collectively, the "Indemnitees") from and against any and all Actions and Damages, and expenses in connection therewith (irrespective of whether any such Indemnitee is a party to the Action for which indemnification hereunder is sought), and including interest, penalties and reasonable attorneys' fees and disbursements (the "Indemnified Liabilities"), incurred by any Indemnitee as a result of, or arising out of, or relating to (a) any material breach of any representation or warranty made by the Company in this Agreement or in the other Transaction Documents, (b) any material breach of any covenant, agreement or obligation of the Company contained in this Agreement or the other Transaction Documents, or (c) any Action brought or made or Threatened, other than by the Company, against such Indemnitee and arising out of or resulting from (i) the execution, delivery, performance or enforcement of this Agreement or the other Transaction Documents, or (ii) solely the status of such Purchasers as holder of the Debentures or as an investor in the Company.

8.2. Expenses. All fees and expenses (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such proceeding in a manner not inconsistent with this Section 8.2) of the Indemnitees shall be paid to the Indemnitees as incurred, within ten (10) Business Days of written notice thereof to the Company, which notice shall be delivered no more frequently than on a monthly basis (regardless of whether it is ultimately determined that an Indemnitee is not entitled to indemnification hereunder; provided, that the Company may require such Indemnitee to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnitee is not entitled to indemnification hereunder).

**ARTICLE IX.
MISCELLANEOUS**

9.1. Governing Law. THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS BY, AND SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE

WITH, THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO ITS CONFLICTS OF LAWS PRINCIPLES.

9.2. RESERVED.

9.3. Costs and Expenses. The Company shall pay within five (5) Business Days of demand, accompanied by an invoice therefor, the reasonable costs and expenses of the Purchasers in connection with the negotiation, preparation, execution and delivery of the Transaction Documents. Notwithstanding the foregoing, the fees payable by the Company under this Section 9.3 (i) shall not exceed \$2,500 in the aggregate, (ii) except as provided in the immediately following subsection, will be payable whether or not the Closing occurs, and (iii) will not be owing or payable in the event any Purchaser fails to purchase the aggregate principal amount of Debentures set forth opposite such Purchaser's name on Schedule I.

9.4. Amendments; Consents. No amendment or waiver of any provision of this Agreement or any other Transaction Document, shall be effective unless the same shall be in writing and signed by Holders holding at least fifty-one percent (51%) of the principal amount of Debentures then outstanding.

9.5. Survival of Representations and Warranties. All representations and warranties contained herein or in any other Transaction Document will survive the execution and delivery of the Debentures for a period of two years.

9.6. Legends. Each certificate or instrument representing the Debentures and any shares of Common Stock issued upon conversion thereof shall be stamped or otherwise imprinted with a legend in substantially the following form(s) (in addition to any legend required or advisable under applicable state securities laws):

[THIS NOTE/THESE SHARES] HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND HAS BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR A VALID EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS.

9.7. Notices. All notices, demands and other communications provided for or permitted hereunder or under any other Transaction Document shall be made in writing and shall be by facsimile, commercial overnight courier service or personal delivery to the following addresses, or to such other addresses as shall be designated from time to time by a party in accordance with this Section 9.7:

if to the Company:

26081 Avenue Hall
Valencia, California 91355
Attention: General Counsel
Facsimile: (661) 294-7924

With a copy which shall not constitute notice to:

Julie Kaufer, Esq.
Akin, Gump, Strauss, Hauer & Feld, L.L.P.
2029 Century Park East
Los Angeles, California 90067

if to a Purchaser at such Purchaser's address on Schedule II hereto:

Except as otherwise expressly provided in any Transaction Document, if any notice, request, demand, direction or other communication required or permitted by any Transaction Document is given by mail it will be effective on the earlier of receipt or the third calendar day after deposit in the United States mail with first class or airmail postage prepaid; if given by facsimile during regular business hours of the recipient, when sent; if given by facsimile outside regular business hours of the recipient, at the opening of business on the next business day; if dispatched by commercial courier, on the scheduled delivery date; or if given by personal delivery, when delivered.

9.8. Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal, or unenforceable in any respect for any reason, the validity, legality, and enforceability of any such provision in every other respect, and of the remaining provisions hereof, shall not be in any way impaired, and the provisions held invalid, illegal, or unenforceable shall be so construed as to make them (and the remaining provisions hereof) enforceable to the maximum extent allowable by law.

9.9. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company, and on all successors and permitted assigns of the Company, and on each Purchaser, and on all successors, permitted assigns and permitted transferees of each Purchaser.

9.10. Waiver of Jury Trial. EACH PARTY HERETO WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM CONCERNING ANY RIGHTS UNDER THIS AGREEMENT AND EACH OTHER TRANSACTION DOCUMENT TO WHICH IT IS A PARTY, AND UNDER ANY AMENDMENT, WAIVER, CONSENT, INSTRUMENT, DOCUMENT, OR OTHER AGREEMENT DELIVERED OR WHICH IN THE FUTURE MAY BE DELIVERED IN CONNECTION HERewith OR THEREWITH, OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, AND AGREES THAT ANY SUCH ACTION, PROCEEDING OR COUNTERCLAIM SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

9.11. Assignments.

a. Assignment by the Company. The Company may not assign any of its individual rights or obligations under this Agreement, the Debentures or any other Transaction Document without the prior written consent of each Purchaser, and any such purported assignment shall be void and of no effect.

b. Assignments by Purchasers. Each Purchaser and any transferee of a Purchaser may, at any time, or from time to time, sell, agree to sell or assign or transfer to one or more Persons all or any portion of any Debenture, this Agreement and the other Transaction Documents and any and all of the Purchaser's rights and remedies under this Agreement, any Debenture, and any other Transaction Document; provided, however, that (i) the Purchaser shall provide written notice to the Company and each other Purchaser of its desire to make such sale, assignment or transfer and (ii) if, within thirty (30) days of receipt of such notice, the Company or any such Purchaser makes a written offer to purchase all or a portion of any Debenture, specifying payment terms, purchase date and price, and the purchase price is within 95% of the purchase price of a bona fide written offer obtained from any third party within one hundred fifty (150) days after the expiration of the thirty-day period for offers from the Company and other Purchasers and the other terms of the offer of the Company or such other Purchaser are substantially as favorable as are offered by any such third party, then the Company or such other Purchaser shall have the right, exercisable within thirty (30) days of the expiration of the one hundred-fifty-day period for offers from third parties to purchase all or such portion of the Debenture from the Purchaser on the terms specified in its offer, and the Purchaser shall be obligated to sell all or such portion of the Debenture to the Company or such other Purchaser.

9.12. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

9.13. Entire Agreement. This Agreement, together with the other Transaction Documents, is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement, together with the other Transaction Documents, supersedes all prior agreements and understandings among the parties with respect to such subject matter.

9.14. Interpretation. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

9.15. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. This Agreement may also be executed by any party hereto by facsimile signature, which shall be deemed to be an original signature of such party hereon.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Debenture Purchase Agreement to be duly executed by their respective authorized persons as of the date first indicated above.

3D SYSTEMS CORPORATION

By: _____
Name:
Title:

PURCHASER

By: _____
Name:
Title:

SCHEDULE I

[NAME OF PURCHASER]

COMMITMENT

\$

SCHEDULE II

Name of Purchaser

Address

EXHIBIT A
DEFINITIONS

“**Action**” means any action, appeal, petition, plea, charge, complaint, claim, suit, demand, litigation, arbitration, mediation, hearing, inquiry, investigation or similar event, occurrence, or proceeding.

“**Agreement**” means this Agreement, as the same may be amended, supplemented or modified in accordance with the terms hereof from time to time.

“**Business Day**” means any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the City of New York.

“**Change of Control**” means a Person or “group,” as such term is defined in Rule 13(d)(5) of the Exchange Act, who or which on the Closing Date is the beneficial owner of less than 5% of the outstanding shares of common stock of the Company, becoming the beneficial owner of in excess of 50% of the shares of common stock outstanding on the date of determination of a Change of Control. For purposes of this definition, “beneficial owner” shall have the meaning set forth in Rule 13(d)(3) of the Exchange Act of 1934, as amended.

“**Closing**” shall have the meaning given such term in Section 1.2.

“**Closing Date**” shall have the meaning given such term in Section 1.2.

“**Common Stock**” means the common stock, par value \$.0001 per share, of the Company.

“**Company**” shall have the meaning given such term in the preamble hereto.

“**Current Market Price**” means the lesser of (i) the most recent closing sale price of a share of Common Stock prior to the announcement of the issuance or sale or the applicable record date of right, option, warrant or distribution or (ii) the average closing sale price of a share of Common Stock over the previous 20 consecutive Trading Days prior to the sale, issuance or distribution date.

“**Damages**” means all damages (including incidental and consequential damages), losses (including any diminution in value), Liabilities, payments, amounts paid in settlement, obligations, fines, penalties, costs of burdens associated with performing injunctive relief, and other costs (including reasonable fees and expenses of outside attorneys, accountants and other professional advisors, and of expert witnesses and other costs (including the allocable portion of the relevant Person’s internal costs) of investigation, preparation and litigation in connection with any Action or Threatened Action) of any kind or nature whatsoever, whether known or unknown, contingent or vested, or matured or unmatured.

“**Debentures**” shall have the meaning given such term in the first recital hereto.

“**Debtor Relief Laws**” means the Bankruptcy Code of the United States of America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, moratorium,

rearrangement, receivership, insolvency, reorganization or similar debtor relief laws from time to time in effect affecting the rights of creditors generally.

“Default” shall mean (i) any Event of Default or (ii) any event or condition which, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

“Event of Default” shall have the meaning given such term in Section 6.1.

“Excluded Securities” means (a) options, warrants or other awards granted to employees, consultants or directors or the Company pursuant to a written stock option agreement of the Company and (b) any securities issued or sold by the Company for consideration other than cash.

“Existing Bank Debt” means the Company’s financing arrangement with U.S. Bank consisting of that certain \$26.5 million three-year revolving credit facility and \$15 million 66-month commercial term loan.

“GAAP” shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entities as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

“Governmental Entity” means any legislature, agency, bureau, branch, department, division, commission, court, tribunal, magistrate, justice, multi-national organization, quasi-governmental body, or other similar recognized organization or body of any federal, state, county, municipal, local, or foreign government or other similar recognized organization or body exercising similar powers or authority.

“Holder” shall have the meaning given such term in Section 7.1.

“Holder Redemption Date” means a date not less than 30 nor more than 60 calendar days after a Change of Control Notice Date.

“Indemnified Liabilities” shall have the meaning given such term in Section 8.1.

“Indemnitees” shall have the meaning given such term in Section 8.1.

“Law” means any law (statutory, common, or otherwise), constitution, treaty, convention, ordinance, equitable principle, code, rule, regulation, executive order, or other similar authority enacted, adopted, promulgated, or applied by any Governmental Entity, each as amended and now and hereinafter in effect.

“Lien” means any mortgage, deed of trust, pledge, hypothecation, assignment, encumbrance, lien (statutory or otherwise, including, without limitation, any lien for taxes), security interest, preference, participation interest, priority, or security agreement, or preferential arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of

the foregoing and the filing of any document under the law of any applicable jurisdiction to evidence any of the foregoing.

“Material Adverse Effect” means a material adverse effect on the condition (financial or otherwise), operations, prospects, Property or business of the Company or any subsidiary, taken as a whole.

“Maturity Date” shall mean December 31, 2006.

“Per Share Market Price” means on any particular date the closing bid price per share of the Common Stock on such date (as reported by Bloomberg Information Services, Inc., or any successor reporting service) on Nasdaq.

“Person” means an individual, corporation, partnership, limited liability company, limited liability partnership, trust, unincorporated association, joint venture, joint-stock company, Governmental Entity, or any other entity.

“Property” means any ownership interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

“Purchase” shall have the meaning given such term in Section 1.2.

“Purchasers” shall have the meaning given such term in the preamble hereto.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Senior Indebtedness” means the principal of (and premium, if any) and interest on (a) all indebtedness of the Company (including indebtedness of others guaranteed by the Company) other than the Debentures, whether outstanding on the date of this Agreement or thereafter created, incurred or assumed, including without limitation, the Existing Bank Debt, which is (i) for money borrowed or (ii) evidenced by a note or similar instrument given in connection with the acquisition of any business, properties or assets of any kind, (b) obligations of the Company, whether outstanding on the date of this Agreement or thereafter created, incurred or assumed, as lessee under leases required to be capitalized on the balance sheet of the lessee under GAAP and leases of property or assets made as part of any sale and lease-back transaction to which the Company is a party and (c) amendments, renewals, extensions, modifications and refundings of any such indebtedness or obligation, unless in any case in the instrument creating or evidencing any such indebtedness or obligation or pursuant to which the same is outstanding it is provided that such indebtedness or obligations is not superior in right of payment to the Debentures.

“Threatened” means a demand or statement has been made and received (orally or in writing) or a notice has been given and received (orally or in writing) by a Person or an officer or agent of a Person if not a natural person, or any other event has occurred or any other circumstances exist that would lead a prudent Person to conclude that a cause of Action or other matter is likely to be asserted, commenced, taken, or otherwise initiated.

“Trading Day” means a day on which the Common Stock is traded on Nasdaq.

“Transaction Documents” shall mean this Agreement, the Debentures and the other documents, instruments and agreements contemplated to be delivered thereby.

EXHIBIT B
[FORM OF DEBENTURE]

EXHIBIT C

**3D SYSTEMS CORPORATION
CONVERSION NOTICE**

Reference is made to the Debenture issued by 3D Systems Corporation (the "Debenture"). In accordance with and pursuant to the Debenture, the undersigned hereby irrevocably elects to convert the principal amount of the Debenture, indicated below into shares of Common Stock, par value \$.0002 per share (the "Common Stock"), of the Company, by tendering the Debenture specified below as of the date specified below.

Date of Conversion: _____

Aggregate Principal Amount to be converted: _____

Debenture no(s). of Debenture to be converted: _____

Please confirm the following information: _____

Conversion Price: _____

Number of shares of Common Stock to be issued: _____

Please issue the Common Stock into which the Debenture is being converted and, if applicable, any check drawn on an account of the Company in the following name and to the following address:

Issue to: _____

Facsimile Number: _____

Authorization: By: _____

Title: _____

Dated: _____

Account Number (if electronic book entry transfer): _____

Transaction Code Number (if electronic book entry transfer): _____

3D Systems, Inc.
List of Subsidiaries at December 31, 2002

The Company has the following subsidiaries:

3D Canada Company, a Nova Scotia unlimited liability company ("3D Canada"), a wholly-owned subsidiary of the Company;
and
3D Holdings, LLC, a Delaware limited liability company, owned by the Company and 3D Canada;
and
RPC, Ltd., a Swiss company, a wholly-owned subsidiary of the Company;
and
3D Systems, Inc., a California corporation ("3D, Inc."), a wholly-owned subsidiary of 3D Holdings, LLC;
and
3D Systems Europe Limited ("3D Europe"), a U.K. corporation, a wholly-owned subsidiary of 3D California;
and
3D Systems GmbH, a German corporation, a wholly-owned subsidiary of 3D Europe;
and
3D Systems France SARL, a French limited liability company, a wholly-owned subsidiary of 3D Europe;
and
3D Systems Italia S.r.l., an Italian limited liability company, a wholly-owned subsidiary of 3D Europe and the Company;
and
3D Capital Corporation, a wholly-owned subsidiary of 3D California;
and
3D Systems International, Inc., a Barbados corporation, a wholly-owned subsidiary of 3D California;
and
3D Systems Asia Pacific, Ltd., a California corporation, a wholly-owned subsidiary of 3D California;
and
OptoForm SARL, a French limited liability company, a wholly-owned subsidiary of 3D Systems France SARL;
and
3D European Holdings Limited, a United Kingdom corporation, a wholly-owned subsidiary of 3D Europe;
and
3D Systems Solid Imaging S.A., a Spanish company, a wholly-owned subsidiary of 3D Europe;
and
OptoForm LLC, a Delaware limited liability company, 60% owned by 3D California;
and
3D Systems Japan K.K., a Japanese corporation, a wholly-owned subsidiary of 3D, Inc.

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Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statement Nos. 333-83680, 333-62776, 333-79767, 333-58903, 333-11865, 333-36782 on Forms S-8, and on the Form S-8 of 3D Systems Corporation (the "Company") filed on April 30, 1990 of our report dated June 20, 2003, which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) a going concern uncertainty and (ii) a restatement of the Company's 2001 and 2000 financial statements, appearing in this Annual Report on Form 10-K for the year ended December 31, 2002.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Los Angeles, California
June 27, 2003

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K (the "Form 10-K") for the year ended December 31, 2002 of 3D Systems Corporation (the "Issuer").

I, Brian K. Service, the Principal Executive Officer of Issuer certify that, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (i) the Form 10-K fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: June 30, 2003

/s/ Brian K. Service

Name: Brian K. Service

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies the annual report on Form 10-K (the "Form 10-K") for the year ended December 31, 2002 of 3D Systems Corporation (the "Issuer").

I, Peter V. White, the Principal Accounting Officer of Issuer certify that, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (i) the Form 10-K fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: June 30, 2003

/s/ G. Peter V. White

Name: G. Peter V. White

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