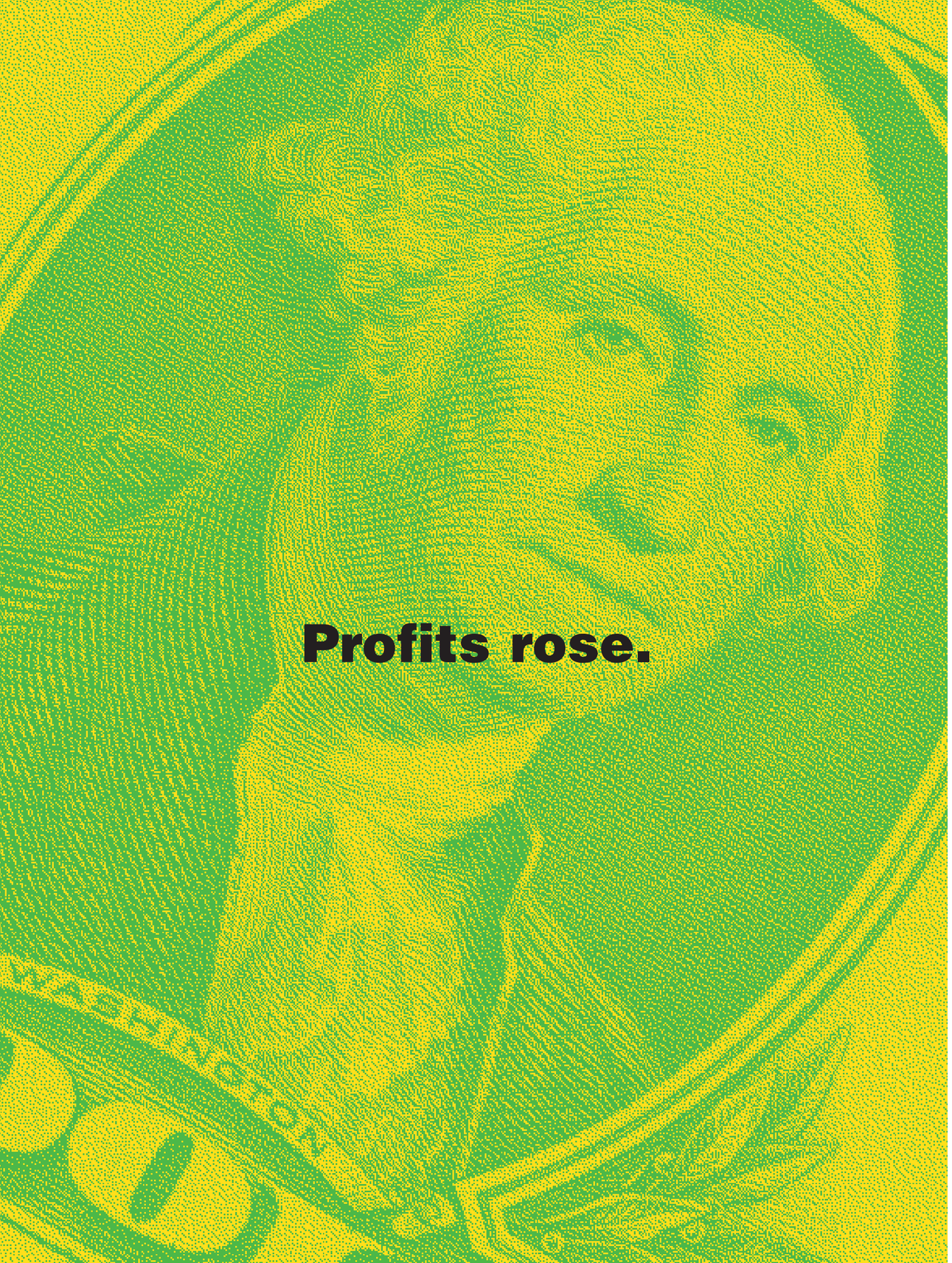
1998

3D SYSTEMS CORPORATION ANNUAL REPORT



Corporate Profile

For over a decade, 3D Systems has given manufacturers the ability to bring their product ideas to reality through the use of our solid imaging systems. As the worldwide market and technology leader in solid imaging solutions, our products enable users to move from concept models to finished parts —faster, at lower cost, and at higher quality than traditional methods.

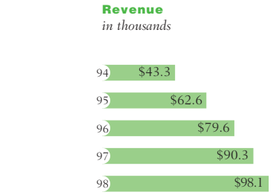
The company's systems utilize stereolithography (SLA) and 3D printing technologies, which fabricate solid objects from digital input. These processes offer significant competitive advantages by substantially reducing the time and cost required to design, develop, and manufacture products.

Companies all over the globe have recognized the benefits of producing three-dimensional solid objects for a myriad of applications—from design verification, to fit and functional testing, to molds for production runs, and even to create near-production parts. The applications of concept modeling, rapid prototyping and tooling are used by a variety of industries, including automotive, aerospace, consumer products, electronics, entertainment and health care.

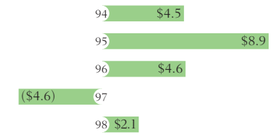
The company also licenses its proprietary 3D Keltool process, a commercially proven moldmaking solution that produces prototype, bridge and production tooling inserts.

Headquartered in Valencia, California, the Company maintains offices throughout North America, Europe and Asia, and employs more than 450 people. To date, 3D Systems has installed more than 1,200 systems worldwide.

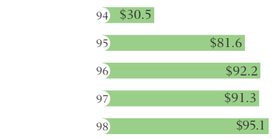
Revenue
in thousands



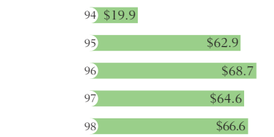
Net Income (Loss)
in thousands



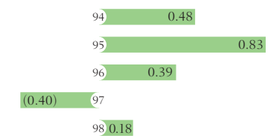
Total Assets
in thousands



Stockholders' Equity
in thousands



Earnings (Loss) Per Share



Operating Results *In thousands, except per share amounts*

Year ended	*1994*	*1995*	*1996*	*1997*	*1998*
Total sales	$ 43,337	$ 62,582	$ 79,632	$ 90,257	$ 98,117
Net income (loss)	$ 4,502	$ 8,917	$ 4,599	$ (4,589)	$ 2,132
Net income (loss) per common share, assuming dilution	0.48	0.83	0.39	(0.40)	0.18
Weighted average number of shares outstanding and dilutive shares	9,365	10,708	11,742	11,398	11,594

Financial Position *In thousands*

Year ended	*1994*	*1995*	*1996*	*1997*	*1998*
Working capital	$ 11,722	$ 50,022	$ 49,764	$ 38,310	$ 38,306
Total assets	30,465	81,551	92,239	91,340	95,103
Short-term debt	—	—	100	95	100
Long-term liabilities	1,474	1,622	6,273	6,197	6,090
Stockholders' equity	19,985	62,950	68,703	64,595	66,557

Products launched.

SLA 7000

4X faster

than the SLA 5000

With the introduction of the SLA 7000, 3D Systems has taken a major step forward in making its technology a tool for production applications.

Using this advanced new system, a company can complete the engineering of a new product in the morning and have finished parts in hand the same day. The efficiency of the SLA 7000 comes as a result of several new enhancements, which include a dual-spot, high-power laser, new Windows NT-based software and a new multi-purpose resin. The result: the SLA 7000 is four times faster than, and offers twice the price performance of, the SLA 5000.

The SLA 7000 also produces parts with a superior surface finish, which provides significant advantages. It opens up additional customer applications, such as rapid tooling, which requires extreme part precision and high surface resolution. In addition, the fine-layer build style reduces the need for hand finishing of parts.

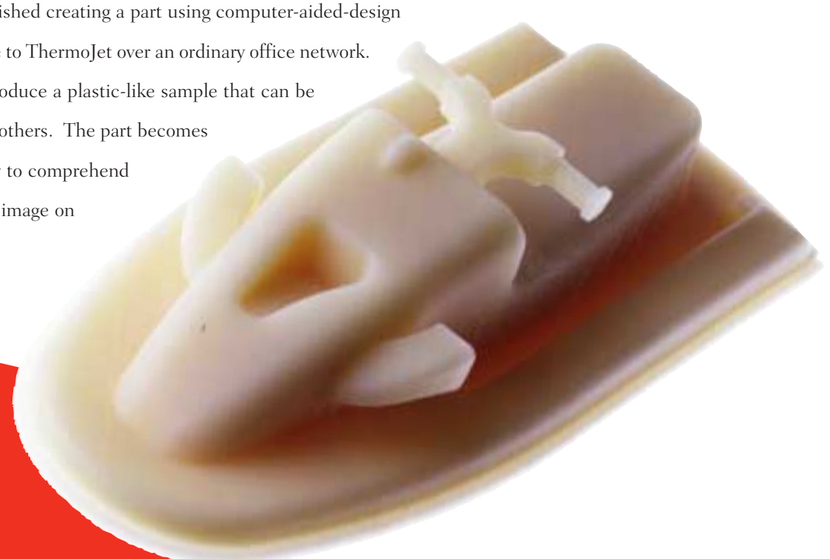
Together these capabilities will result in a fundamental shift in the way solid imaging is used by industry. And it becomes a first step in the company's vision to take the SLA line to the production floor.

.001" Layers

for superior part finish

With the introduction of ThermoJet, 3D Systems is enabling market growth by offering a product that is at least 20% less expensive and three times faster than its predecessor. This exciting new offering is the cornerstone of the company's strategy to bring greater ease and productivity to solid imaging, which in turn, could revolutionize the way people communicate their ideas.

ThermoJet produces physical three-dimensional models—quickly and affordably—in an office setting. A design engineer who has just finished creating a part using computer-aided-design (CAD) software can send the file to ThermoJet over an ordinary office network. Within hours, ThermoJet will produce a plastic-like sample that can be held, evaluated and shared with others. The part becomes a real-world example that is easy to comprehend as compared to a complex CAD image on a computer screen.



3X

faster

than the Actua 2100

ThermoJet

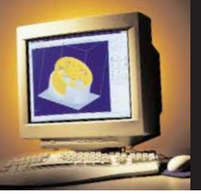
network-ready

ThermoJet creates solid objects with a variation on a technology widely used in inkjet printing. But instead of putting dots of ink on paper, ThermoJet places tiny drops of molten plastic, which almost immediately solidify. Layer by layer, a three-dimensional object is formed.

The uses for ThermoJet are far-reaching and span many industries, from the design of new cellular phones and pagers, to a new line of golf clubs. Artists can use ThermoJet technology to print three-dimensional samples of sculptures, just as easily as orthodontists can create models of a patient's smile.

Because ThermoJet files can be sent over any network, including the Internet, the machine can be used as a "3D fax" to send models to other cities or continents in moments, for output within hours. This is especially valuable when complex designs must be communicated in a multi-national, multi-cultural environment.

As a result of these benefits and more, ThermoJet opens an exciting new path to the future for 3D Systems.



3D Lightyear Software

3D Systems responded fully to our customers' need for easy-to-use, affordable Windows-based software with the introduction of 3D Lightyear part preparation software. 3D Lightyear, written for the Windows NT platform, delivers all the functionality of its UNIX predecessor plus increased productivity and cost efficiencies. With 3D Lightyear, our customers experience faster operation in preparing build files and readying parts for output. In addition, 3D Lightyear produces build files that are on average 50% smaller, reducing networking and data storage requirements.

All of these benefits are provided in a user-friendly interface and a program that is easy to install, navigate, and integrate into existing networks. Every function is available on a single screen from which the user can interact with the model itself. The software is highly intuitive and includes such Windows conveniences as wizards, on-line interactive help and how-to instructions.

3D Lightyear is easy to own. The software is free to SLA customers with maintenance contracts, and is bundled with new systems at no extra charge. 3D Lightyear licensing allows unlimited users, thus eliminating expensive per-seat fees. The software, which is Year 2000 compliant, is compatible with all existing SLA devices.

3D Lightyear exemplifies our commitment to offering customers an integrated package of high performance systems, software and materials that will give them a competitive advantage in product development, as well as increased productivity and value.

3x ***faster***

than our previous Unix-based software

easy-to-use

Materials

Quite simply, materials expand the applications and uses of 3D Systems products. Working with our customers and Ciba Specialty Chemicals, we approached materials development aggressively in the last 15 months, announcing eight new materials for use with our solid imaging equipment.

With the introduction of our SLA 7000, a new high-speed resin was developed to further enhance the productivity of the system. The result: our SL 7510 resin, featuring significantly faster photospeed (the time for the resin to harden after exposure to the laser beam).

The resins available from 3D Systems allow our SLA customers to create parts with the strength and toughness to withstand real-world uses. With SL 5530HT, customers can build and test models in harsh environments, such as exposure to temperatures of up to 450º F (232º C), or contact with water or solvents. Another offering—SL 5520—provides the ability to create parts for snap-fit applications, with a robustness approaching commercial engineering plastics.

For the new ThermoJet Solid Object Printer, our TJ-88 is a thermoplastic polymer that produces a more durable part with good surface finish and easy support removal. TJ-88 is available in neutral, grey and black—providing our customers a variety of options in which to visualize and communicate their ideas.

As customer needs continue to broaden, 3D Systems is committed to developing materials that enable more applications, and expand the uses of our solid imaging systems in the marketplace.

SLA Materials*

SL 7510
Outstanding productivity, fine layer capability, excellent part quality, accurate, optical clarity and light color.

SL 5530HT
Highest temperature resistance available, solvent resistant, high productivity, humidity and water resistant, with superior cleaning and support removal.

SL 5510
Highly accurate, high productivity, humidity resistant, optical clarity, light color, elevated temperature resistance and excellent part quality.

SL 5520
Durable but flexible, impact resistant, excellent part quality, accurate, optical clarity, light color and humidity resistant.

SL 5170
Highly accurate, excellent optical clarity, light color and excellent part quality.

SL 5210
High temperature resistance, water and humidity resistant, very high productivity, superior part quality and easy clean-up.

SL 5220
Very high productivity, humidity resistant, accurate, optical clarity, light color, excellent part quality and elevated temperature resistance.

SL 5180
Accurate with optical clarity.

SL 5410
High productivity, optical clarity, highly accurate, humidity and elevated temperature resistant with excellent part quality.

SL 5190
Accurate with optical clarity.

SL 5195
Accurate, light color and optical clarity.

ThermoJet Material

TJ-88
More durable than previous thermopolymers, can be used for investment casting, available in three colors.

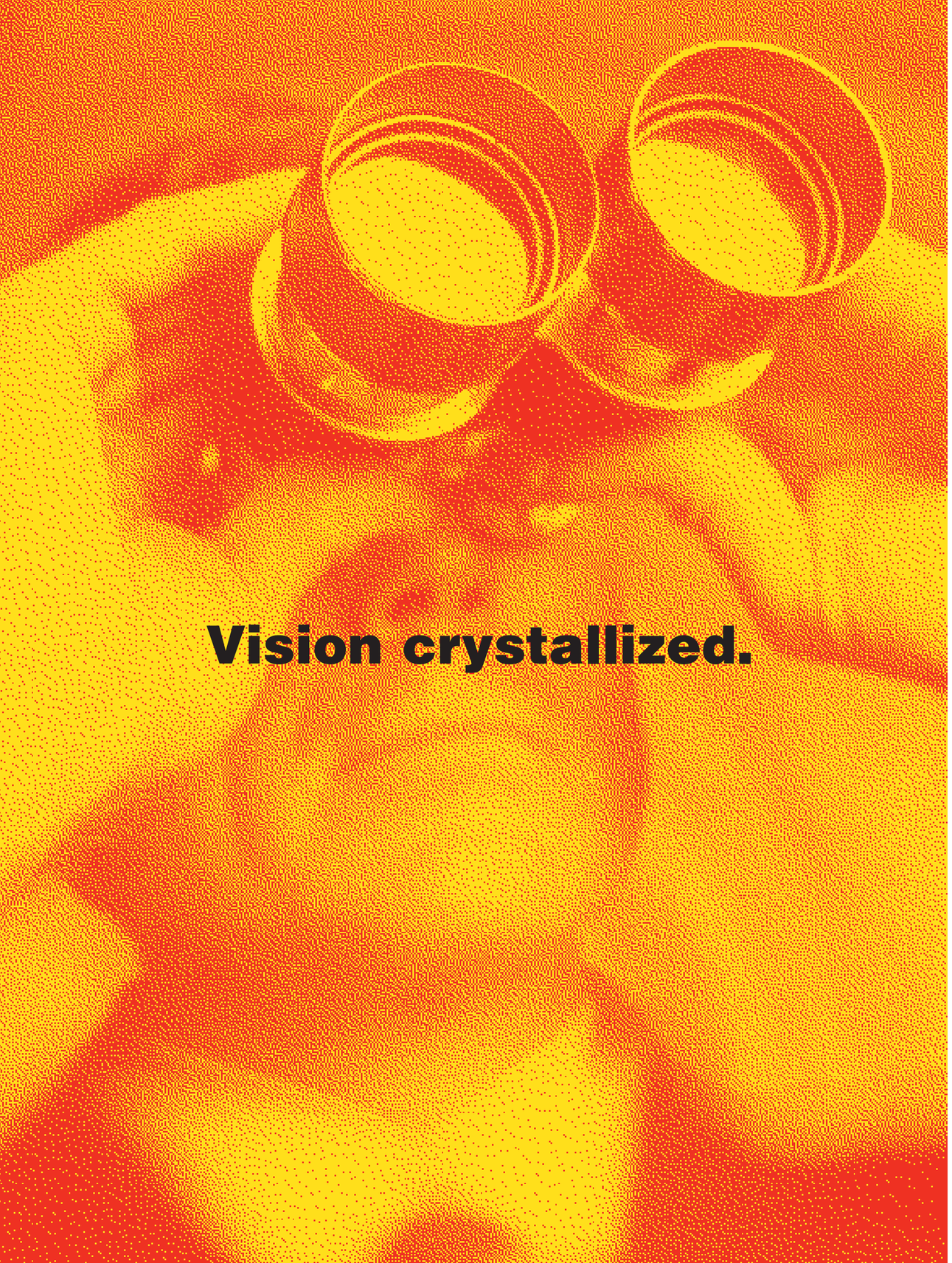
Actua 2100 Material

TJ-75
More durable than previous thermopolymers, can be used for investment casting, available in three colors.

* *SLA materials are products of Ciba Specialty Chemicals, Inc., co-developed with and exclusively distributed by 3D Systems Corporation.*

heat-resistant to

450°F



To Our Shareholders

Nineteen ninety-eight was a landmark year for 3D Systems, during which the company formulated a bold vision for the next decade. This strategic course will unfold over the next several years and profoundly influence 3D Systems' direction into the millennium.

Our agenda entails exponentially increasing our user base by bringing unprecedented levels of productivity to solid imaging, while continuing to expand the range of applications. Driven by the strategic goals of making our systems faster, cheaper, and easier to use, we consider these initiatives to be critical measures aimed at driving sales growth, as well as generating a growing stream of recurring revenue and profit.

Accelerating The Rate Of Change Building from our proven technologies and market leadership, 3D Systems' recent slate of new product introductions—spanning hardware, software and materials—is showcased across the preceding pages and exemplifies the company's ever-intensifying rate of innovation.

In a period of 18 months, we have accelerated the pace of new technology by introducing new industrial and office systems that are, respectively, four and three times faster than earlier products from 3D Systems. Speed, though, is just first among a litany of improvements, which include precision, price performance and part cost—all of which are critical components in driving the company's vision for the next decade.

Office Modeling For The Professional Market Through our new office product, the ThermoJet Solid Object Printer, we expect to attract an entirely new category of users to model making, drawn by the attractions of increased performance and sharply lower cost.

ThermoJet is targeted toward the professional market—design engineers in office settings—a global opportunity that the company estimates to be substantial. With the considerable potential afforded by ThermoJet, 3D Systems anticipates its new product to be a genuine catalyst for sales growth. Product sales, however, are only the leading edge of our formula.

A new material designed specifically for ThermoJet, TJ-88, is being manufactured by 3D Systems at its Grand Junction, Colorado factory, and is the cornerstone of a business plan to generate a stream of profitable recurring revenues from consumables.

SLA Systems For The Industrial Market Even as 3D Systems broadens its base, stereolithography (SLA) machines targeting the industrial market remain the foundation of the company. The technology is unparalleled, and the customer benefits are far-reaching. With an impressive roster of installed users worldwide, SLA sales represent a strong business base for the company, generating solid per-machine profits.

3D Systems machines today create near-production parts used for a range of verification and testing purposes. Can solid imaging evolve into a true production capability, facilitating the manufacturing trends toward mass customization? We believe so. Given our pace of innovation, evidenced by the new SLA 7000 and enhancements to software and materials, we envision a time in the next decade when our customers will actually produce production parts without tooling, using nothing more than a CAD "digital foundry" and 3D Systems' solid imaging technology.

Operating Results Among our near-term priorities last year was a return to profitability, which I am pleased to report was achieved in 1998. For the year ended December 31, 1998, the company posted net income of $2.1 million, equal to $0.18 per fully diluted share, which compares with a net loss in 1997 of $4.6 million, or $0.40 per fully diluted share. Prior-year results include $5.9 million of non-recurring charges related to asset acquisitions, inventory adjustments and restructuring costs. Revenues rose nine percent to a record $98.1 million last year from $90.3 million in 1997.

3D Systems continues to maintain a strong financial position. We possess ample cash and little long-term debt, providing the company with considerable flexibility to leverage its balance sheet, as needed, in support of growth initiatives. Inventory levels were reduced last year, turning over approximately five times, indicative of our asset-management efficiencies. And at the close of 1998, order backlog stood at $8.8 million, the company's highest level in two years.

Outlook The poet Samuel Johnson once wrote, "The future is purchased by the present." These words are particularly apt in describing the path we have carved for 3D Systems: a clear vision of where the company is heading, based on aggressive plans we are formulating today. Building a successful global enterprise is accompanied by significant challenges, as well, and we expect to encounter our share as we execute 3D Systems' blueprint for the 21st century.

We could not end our letter without acknowledging the contributions of the person who started it all in 1986, Charles W. Hull, the company's founder and past president. Chuck retired from his full-time duties at 3D Systems on February 28, 1999. We are pleased that we will continue to have the benefit of his guidance as a member of the Board of Directors and as a consultant to the company.

Let me also extend deep gratitude to our employees for their unflagging dedication, to our Board of Directors for its counsel and wisdom, and to our loyal customers for their continued commitment. My sincere thanks are reserved for the shareholders, for whom we work tirelessly to build the value of our company. Through the support of all involved, and the many opportunities that await us, 3D Systems will succeed.

Sincerely,

ARTHUR B. SIMS

Chairman and Chief Executive Officer

March 31, 1999

CORPORATE DIRECTORY

Senior Management

ARTHUR B. SIMS
Chief Executive Officer and Chairman of the Board

RICHARD D. BALANSON, PHD.
President and Chief Operating Officer

FRANK J. SPINA
Vice President, Chief Financial Officer

A. SIDNEY ALPERT
Vice President, General Counsel and Secretary

MARTIN E. MCGOUGH
Vice President, Operations

Board of Directors

ARTHUR B. SIMS
Chairman of the Board and Chief Executive Officer
3D Systems Corporation

RICHARD D. BALANSON, PHD.
President and Chief Operating Officer
3D Systems Corporation

DONALD S. BATES
Independent Management Consultant
Former Senior Vice President
General Electric Company

MIRIAM V. GOLD
Vice President and Assistant General Counsel
Regulatory Affairs and Legal, Additives Division
Ciba Specialty Chemicals Corporation

CHARLES W. HULL
Founder
3D Systems Corporation

JIM D. KEVER
Co-Chief Executive Officer and President
Envoy Corporation

G. WALTER LOEWENBAUM II
Vice Chairman of the Board
Chairman and Chief Executive Officer
Loewenbaum & Company

IAN L. WHITE-THOMSON
Chairman
U.S. Borax Inc.

Corporate Headquarters

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888.337.9786 or 805.295.5600

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Glendale, California 91204
818.502.1404

Independent Public Accountants

PricewaterhouseCoopers LLP
21650 Oxnard Street, Suite 1900
Woodland Hills, California 91367

Legal Counsel

Troop Steuber Pasich Reddick & Tobey, LLP
2029 Century Park East, 24th floor
Los Angeles, California 90067

Common Stock Listing

Shares of the Company's common stock are listed on the Nasdaq National Market System under the symbol TDSC.

Investor Relations Contact

Carol E. Cerrato
Investor Relations
3D Systems Corporation
805.295.5600, ext. 2240

Investor relations materials may also be obtained from the Company's Web site, located at http://www.3dsystems.com, or by calling our information on demand service at 800.757.1799.

Annual Meeting

The annual meeting of shareholders will take place on Thursday, May 20, 1999 at 10:00 a.m. Mountain Time at the Grand Vista Hotel, 2790 Crossroads Boulevard, Grand Junction, Colorado.

3D Systems Corporation 26081 Avenue Hall, Valencia, California 91355 · 805.295.5600

Design: Douglas Joseph Partners Limited, Los Angeles

Please note that except for the historical information contained in this annual report, some of the matters discussed contain forward-looking statements that involve risks and uncertainties that include, but are not limited to, the availability and acceptance of new products, the impact of competitive products and pricing, the ability of the Company to contain expenses, dependence on key personnel, industry-wide economic conditions, and other risks detailed in the Company's Form 10-K filed with the S.E.C. on March 31, 1999.

3 SYSTEMS