Interest and other expenses, net

The following table sets forth the components of interest and other expenses, net, for the years ended December 31, 2018, 2017 and 2016.

Table 10

(Dollars in thousands)	Year Ended December 31, 2018	2017	2016
Interest and other expense, net:			
Foreign exchange (gain) loss	$ (3,011)	$ 908	$ (94)
Interest expense, net	399	135	475
Other expense, net	2,649	2,505	1,011
Interest and other expense, net	$ 37	$ 3,548	$ 1,392

The decrease for the year ended December 31, 2018, as compared to the year ended December 31, 2017, is primarily due to the favorable impact of foreign currency.

The increase for the year ended December 31, 2017, as compared to the year ended December 31, 2016, is attributable to impairment charges related to certain cost method investments and an unfavorable impact of foreign currency.

See Note 2 to the Consolidated Financial Statements.

Benefit and provision for income taxes

We recorded a $2.0 million and $7.8 million provision for income taxes for the years ended December 31, 2018 and 2017, respectively. In 2016, we recorded a benefit for income taxes of $0.5 million.

In 2018, our provision reflected $5.9 million in U.S. tax benefit and $7.9 million in foreign jurisdictions tax expense. In 2017, our provision reflected $1.8 million in U.S. tax expense and $6.0 million in foreign jurisdictions tax expense. In 2016, the benefit primarily reflected a $3.3 million U.S. tax benefit and $2.8 million of tax expense in foreign jurisdictions.

During 2018 and 2017, we concluded that it is more likely than not that our deferred tax assets will not be realized in certain jurisdictions, including the U.S. and certain foreign jurisdictions; therefore, we have a valuation allowance recorded against our deferred tax assets on our consolidated balance sheets totaling $95.4 million and $80.8 million as of December 31, 2018 and 2017, respectively.

For further discussion, see Notes 2 and 20 to the Consolidated Financial Statements.

Net loss attributable to 3D Systems

2018 compared to 2017

The following table sets forth the primary components of net loss attributable to 3D Systems for the years ended December 31, 2018 and 2017.

Table 11

(Dollars in thousands)	Year Ended December 31, 2018	Year Ended December 31, 2017	Change
Operating loss	$ (43,191)	$ (53,973)	$ 10,782
Less:			
Interest and other expense, net	37	3,548	3,511
Provision (benefit) for income taxes	2,035	7,802	5,767
Net loss attributable to noncontrolling interests	242	868	626
Net loss attributable to 3D Systems	$ (45,505)	$ (66,191)	$ 20,686
Weighted average shares, basic and diluted	112,327	111,554	
Loss per share, basic and diluted	$ (0.41)	$ (0.59)	

The decrease for the year ended December 31, 2018 as compared to the year ended December 31, 2017 is primarily due to a decrease in loss from operations and interest and other expense. See "*Gross profit and gross profit margins*" and "*Operating expenses*" above.

2017 compared to 2016

The following table sets forth the primary components of net loss attributable to 3D Systems for the years ended December 31, 2017 and 2016.

Table 12

(Dollars in thousands)	Year Ended December 31, 2017	Year Ended December 31, 2016	Change
Operating loss	$ (53,973)	$ (38,420)	$ (15,553)
Less:			
Interest and other expense, net	3,548	1,392	2,156
Provision (benefit) for income taxes	7,802	(547)	8,349
Net loss attributable to noncontrolling interests	868	(846)	1,714
Net loss attributable to 3D Systems	$ (66,191)	$ (38,419)	$ (27,772)
Weighted average shares, basic and diluted	111,554	111,189	
Loss per share, basic and diluted	$ (0.59)	$ (0.35)	

The increase for the year ended December 31, 2017 as compared to the year ended December 31, 2016, is primarily due to a decrease in gross profit, an increase in selling, general and administrative expenses due to investment in go to market and IT infrastructure, an increase in research and development expenses due to our continued investment in plastics, including our Figure 4 platform, metals, materials and software, and the effect of income taxes; which combined to offset the increase in revenue. See "*Comparison of revenue by geographic region*," "*Gross profit and gross profit margins,*" and "*Operating expenses*" above.

Liquidity and Capital Resources

Table 13

	For the Year Ended December 31,		Change	
(Dollars in thousands)	**2018**	**2017**	**$**	**%**
Cash and cash equivalents	$ 109,998	$ 136,344	$ (26,346)	(19.3)%
Accounts receivable, net	126,618	129,879	(3,261)	(2.5)%
Inventories	133,161	103,903	29,258	28.2 %
	369,777	370,126	(349)	
Less:				
Current portion of capitalized lease obligations	654	644	10	1.6 %
Accounts payable	66,722	55,607	11,115	20.0 %
Accrued and other liabilities	59,265	65,899	(6,634)	(10.1)%
	126,641	122,150	4,491	
Operating working capital	$ 243,136	$ 247,976	$ (4,840)	(2.0)%

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. In doing so, we review and analyze our current cash on hand, the number of days our sales are outstanding, inventory turns, capital expenditure commitments and accounts payable turns. Our cash requirements primarily consist of funding of working capital and funding of capital expenditures.

Cash flow from operations, cash and cash equivalents, and other sources of liquidity such as bank credit facilities and issuing equity or debt securities, are expected to be available and sufficient to meet foreseeable cash requirements. During the fourth quarter of 2018, we drew $25 million on our revolving credit line to support working capital and general corporate purposes.

Cash held outside the U.S. at December 31, 2018 was $73.3 million, or 66.7% of total cash and equivalents, compared to $88.9 million, or 65.2% of total cash and equivalents at December 31, 2017. Cash held outside the U.S. is used in our foreign operations for working capital purposes and is considered to be permanently invested. Cash equivalents are comprised of funds held in money market instruments and are reported at their current carrying value, which approximates fair value due to the short term nature of these instruments. We strive to minimize our credit risk by investing primarily in investment grade, liquid instruments and limit exposure to any one issuer depending upon credit quality. See "*Cash flow*", "*Credit facilities*" and "*Capitalized lease obligations*" below.

We acquired one business, Vertex, in 2017 for consideration of approximately $37.6 million, net of cash assumed, related to expanding our healthcare solutions portfolio, particularly within the dental vertical. Consideration consisted of approximately $34.3 in cash, net of cash assumed, and approximately $3.2 million in shares of the Company's common stock.

Days sales outstanding was 69 days at December 31, 2018 compared to 73 days at December 31, 2017, while accounts receivable more than 90 days past due decreased to 8.9% of gross receivables at December 31, 2018, from 9.1% at December 31, 2017. We review specific receivables periodically to determine the appropriate reserve for accounts receivable.

The majority of our inventory consists of finished goods, including products, materials and service parts. Inventory also consists of raw materials for certain printers and service products.

The changes that make up the other components of working capital not discussed above resulted from the ordinary course of business. Differences between the amounts of working capital item changes in the cash flow statement and the balance sheet changes for the corresponding items are primarily the result of foreign currency translation adjustments.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
3D Systems Corporation
Rock Hill, South Carolina

Opinion on Internal Control over Financial Reporting

We have audited 3D Systems Corporation and its subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Charlotte, North Carolina
February 28, 2019

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
3D Systems Corporation
Rock Hill, South Carolina

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of 3D Systems Corporation and its subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2003.

Charlotte, North Carolina
February 28, 2019

3D Systems Corporation
Consolidated Balance Sheets

(in thousands, except par value)	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 109,998	$ 136,344
Accounts receivable, net of reserves — $8,423 (2018) and $10,258 (2017)	126,618	129,879
Inventories	133,161	103,903
Insurance proceeds receivable	—	50,000
Prepaid expenses and other current assets	27,697	18,296
Total current assets	397,474	438,422
Property and equipment, net	107,718	97,521
Intangible assets, net	68,275	98,783
Goodwill	221,334	230,882
Deferred income tax asset	4,217	4,020
Other assets, net	26,814	27,136
Total assets	$ 825,832	$ 896,764
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of capitalized lease obligations	$ 654	$ 644
Accounts payable	66,722	55,607
Accrued and other liabilities	59,265	65,899
Accrued litigation settlement	—	50,000
Customer deposits	4,987	5,765
Deferred revenue	32,432	29,214
Total current liabilities	164,060	207,129
Long-term debt	25,000	—
Long-term portion of capitalized lease obligations	6,392	7,078
Deferred income tax liability	6,190	8,983
Other liabilities	39,331	48,754
Total liabilities	240,973	271,944
Redeemable noncontrolling interests	8,872	8,872
Commitments and contingencies (Note 22)		
Stockholders’ equity:		
Common stock, $0.001 par value, authorized 220,000 shares; issued 118,650 (2018) and 117,025 (2017)	117	115
Additional paid-in capital	1,355,503	1,326,250
Treasury stock, at cost — 2,946 shares (2018) and 2,219 shares (2017)	(15,572)	(8,203)
Accumulated deficit	(722,701)	(677,772)
Accumulated other comprehensive loss	(38,978)	(21,536)
Total 3D Systems Corporation stockholders' equity	578,369	618,854
Noncontrolling interests	(2,382)	(2,906)
Total stockholders’ equity	575,987	615,948
Total liabilities, redeemable noncontrolling interests and stockholders’ equity	$ 825,832	$ 896,764

See accompanying notes to Consolidated Financial Statements.

3D Systems Corporation
Consolidated Statements of Operations

(in thousands, except per share amounts)	Year Ended December 31, 2018	2017	2016
Revenue:			
Products	$ 429,215	$ 391,596	$ 394,850
Services	258,445	254,473	238,115
Total revenue	687,660	646,069	632,965
Cost of sales:			
Products	229,793	216,446	210,822
Services	133,473	124,784	112,392
Total cost of sales	363,266	341,230	323,214
Gross profit	324,394	304,839	309,751
Operating expenses:			
Selling, general and administrative	272,287	264,185	259,776
Research and development	95,298	94,627	88,395
Total operating expenses	367,585	358,812	348,171
Loss from operations	(43,191)	(53,973)	(38,420)
Interest and other expense, net	(37)	(3,548)	(1,392)
Loss before income taxes	(43,228)	(57,521)	(39,812)
Provision (benefit) for income taxes	2,035	7,802	(547)
Net loss	(45,263)	(65,323)	(39,265)
Less: net income (loss) attributable to noncontrolling interests	242	868	(846)
Net loss attributable to 3D Systems Corporation	$ (45,505)	$ (66,191)	$ (38,419)
Net loss per share available to 3D Systems Corporation common stockholders - basic and diluted	$ (0.41)	$ (0.59)	$ (0.35)

See accompanying notes to Consolidated Financial Statements.

3D SYSTEMS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,		
(in thousands)	2018	2017	2016
Net loss	$ (45,263)	$ (65,323)	$ (39,265)
Other comprehensive income (loss), net of taxes:			
Pension adjustments	(92)	220	(902)
Gain on liquidation of non-US entity	—	50	288
Foreign currency translation	(17,068)	31,678	(12,958)
Total other comprehensive income (loss), net of taxes:	(17,160)	31,948	(13,572)
Total comprehensive loss, net of taxes	(62,423)	(33,375)	(52,837)
Comprehensive income attributable to noncontrolling interests	524	1,127	(741)
Comprehensive loss attributable to 3D Systems Corporation	$ (62,947)	$ (34,502)	$ (52,096)

With regard to Barranco I, the Hawaii district court, on February 28, 2014, denied the Company's motion to dismiss and its motion to transfer venue to South Carolina for the convenience of the parties. However, the Hawaii court recognized that Barranco's claims were all subject to mandatory and binding arbitration in Charlotte, North Carolina. The parties selected an arbitrator and arbitration took place in September 2015 in Charlotte, North Carolina.

On September 28, 2015, the arbitrator issued a final award in favor of Barranco with respect to two alleged breaches of contract and implied covenants arising out of the contract. The arbitrator found that the Company did not commit fraud or make any negligent misrepresentations to Barranco. Pursuant to the award, the Company was directed to pay approximately $11,282, which includes alleged actual damages of $7,254, fees and expenses of $2,318 and prejudgment interest of $1,710.

On August 3, 2018, following an unsuccessful appeal to the federal court in the Western District of North Carolina and the United States Court of Appeals for the Fourth Circuit, the Company paid $9,127 of the Barranco I judgment, net setoff. On September 28, 2018, the parties filed a Consent Stipulation Resolving Motion for Setoff of Judgment, stipulating that subject only to vacatur or amendment reducing the Barranco II judgment in Barranco's appeal to the Ninth Circuit related to the Barranco II action discussed below, the Barranco II judgment in the amount of $2,182 was setoff against the Barranco I judgment ("Stipulated Setoff"). The Company paid Barranco the $101 balance remaining due after the Stipulated Setoff.

With regard to Barranco II, the case was tried to a jury in Hawaii district court in May 2016, and on May 27, 2016 the jury found that the Company was not liable for either breach of contract or breach of the implied covenant of good faith and fair dealing. Additionally, the jury found in favor of the Company on its counterclaim against Barranco and determined that Barranco violated his non-competition covenant with the Company. On March 30, 2018, the court entered Findings of Fact and Conclusions of Law and Order requiring Barranco to disgorge, and the Company recover, $523, representing all but four months of the full amount paid to Barranco as salary during his employment with the Company as well as a portion of the up front and buyout payments made to Barranco in connection with the purchase of certain web domains. In addition, the court ordered Barranco to pay pre-judgment interest to the Company to be calculated beginning as of his first breach of the non-competition covenant in August 2011. Judgment entered thereafter on April 2, 2018.

On September 13, 2018, the Hawaii district court entered its Amended Judgment in a Civil Case, awarding the Company a final amended judgment of $2,182. On September 19, 2018, Barranco filed an Amended Notice of Appeal. On January 13, 2019, Barranco filed Appellant's Opening Brief in the Ninth Circuit. The Company's Answering Brief is due March 15, 2019. Appellant's optional Reply Brief is due 21 days thereafter. The Company intends to defend the appeal vigorously.

Export Controls and Government Contracts Compliance Matter

In October 2017 the Company received an administrative subpoena from the Bureau of Industry and Security of the Department of Commerce ("BIS") requesting the production of records in connection with possible violations of U.S. export control laws, including with regard to its Quickparts.com, Inc. subsidiary. In addition, while collecting information responsive to the above-referenced subpoena, the Company identified potential violations of the International Traffic in Arms Regulations ("ITAR") administered by the Directorate of Defense Trade Controls of the Department of State ("DDTC") and potential violations of the Export Administration Regulations administered by the BIS.

On June 8, 2018 and thereafter, the Company submitted voluntary disclosures to BIS and DDTC identifying numerous potentially unauthorized exports of technical data, which supplemented an initial notice of voluntary disclosure that the Company submitted to DDTC in February 2018. The Company is conducting an internal review of its export control, trade sanctions, and government contracting compliance risks and potential violations; implementing associated compliance enhancements; and cooperating with DDTC and BIS, as well as the U.S. Departments of Justice, Defense and Homeland Security. Although the Company cannot predict the ultimate resolution of these matters, the Company has incurred and expects to continue to incur significant legal costs and other expenses in connection with responding to the U.S. government agencies.

Other

The Company is involved in various other legal matters incidental to its business. Although the Company cannot predict the results of the litigation with certainty, the Company believes that the disposition of all these various other legal matters will not have a material adverse effect, individually or in the aggregate, on its consolidated results of operations, consolidated statement of cash flows or consolidated financial position.