

President of Valencia, Calif.-Based 3D Systems Corp. Is Demoted.

By Nicholas Grudin, Daily News, Los Angeles.

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May 7-VALENCIA, Calif.-3D Systems Corp. announced Tuesday that its president and chief operating officer, Grant Flaharty, would step down after an internal investigation into misreported earnings.

The \$72 million Valencia-based company - which in April fired its financial officer, James Selzer - sells systems that create solid models out of computer images.

Flaharty will stay with the company as head of American sales, company officials said.

Others among the company's 400 employees received informal censure, and one member of the sales staff was fired.

"We are coming to the end of a long and difficult process," said Brian K. Service, chief executive officer for 3D Systems.

Shares of 3D Systems closed down 69 cents at \$5.30 on Tuesday.

In the past year, 3D shares have plummeted from a 52-week high of \$15, but Service is optimistic that changes in management and accounting practices will help to avoid future problems.

"We believe that the systems and controls being instituted as a result of the audit committee investigation and the reconfiguration of our management structure ... will enable us to keep much tighter control of transaction reporting," Service said.

The company's accounting irregularities came under scrutiny in February, when questions surfaced over whether \$3 million in revenue counted for 2002, as it had been reported to investors, or for 2003.

An investigation conducted by a board of directors audit committee determined that the earnings should not have been counted for 2002, thus dropping the company's 2002 revenue below profitability and in default of bank loans.

A final determination of the accounting issues has not yet been disclosed by 3D Systems, which replaced auditor Deloitte & Touche in favor of BDO Seidman in April.

Due to the audit, 3D is facing potential delisting by the Nasdaq stock exchange, according to company spokeswoman Elizabeth Goode. An analyst, however, said that isn't likely.

Also on Tuesday, 3D officials announced that the company would offer up to \$16 million in convertible preferred stock; \$11.9 million of that stock offering has already been acquired, Goode said Tuesday afternoon.

3D Systems has also paid off a \$9.6 million term-loan portion of its \$20 million debt facility with U.S. Bancorp.

- Wire services contributed to this report.

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