

Proto Labs Inc
Form S-1/A
November 13, 2012
Table of Contents

As filed with the Securities and Exchange Commission on November 13, 2012

Registration No. 333-184673

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Proto Labs, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

3990
(Primary Standard Industrial Classification
Code number)

41-1939628
(I.R.S. Employer
Identification Number)

Bradley A. Cleveland

Chief Executive Officer

Edgar Filing: Proto Labs Inc - Form S-1/A

Proto Labs, Inc.

5540 Pioneer Creek Drive

Maple Plain, MN 55359

(763) 479-3680

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Copies to:

W. Morgan Burns, Esq.

Mark D. Pihlstrom, Esq.

Faegre Baker Daniels LLP

2200 Wells Fargo Center

90 South 7th Street

Minneapolis, MN 55402-3901

(612) 766-7000

Kenneth L. Guernsey, Esq.

Charles S. Kim, Esq.

Andrew S. Williamson, Esq.

Cooley LLP

101 California Street, 5th Floor

San Francisco, CA 94111-5800

(415) 693-2000

Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company:

Large accelerated filer
 Non-accelerated filer

Accelerated filer
 Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum offering price per share ⁽²⁾	Proposed maximum aggregate offering price ⁽¹⁾⁽²⁾	Amount of registration fee ⁽³⁾
Common Stock, \$0.001 par value per share	4,140,000	\$33.11	\$137,075,400	\$18,697

- (1) Includes additional shares that the underwriters have an option to purchase.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low sales prices of the Registrant's Common Stock as reported by The New York Stock Exchange on November 8, 2012.
- (3) The Registrant previously paid \$13,640 of this registration fee in connection with the previous filings of this Registration Statement.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued November 13, 2012

3,600,000 Shares

Common Stock

Proto Labs, Inc. is offering 100,000 shares of its common stock and the selling shareholders identified in this prospectus are offering an additional 3,500,000 shares. We will not receive any of the proceeds from the sale of the shares sold by the selling shareholders.

Our common stock is listed on the New York Stock Exchange under the symbol PRLB. On November 9, 2012, the last reported sale price of our common stock on the New York Stock Exchange was \$34.45 per share.

We are an emerging growth company under the federal securities laws and will be subject to reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page 9 of this prospectus.

Edgar Filing: Proto Labs Inc - Form S-1/A

PRICE \$ A SHARE

	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Proto Labs Before Expenses</i>	<i>Proceeds to Selling Shareholders Before Expenses</i>
<i>Per Share</i>	\$	\$	\$	\$
<i>Total</i>	\$	\$	\$	\$

Certain of the selling shareholders have granted the underwriters an option for a period of 30 days to purchase up to an additional 540,000 shares of our common stock. Discounts, commissions and proceeds will be prorated between us and the selling shareholders.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on _____, 2012.

MORGAN STANLEY

PIPER JAFFRAY

WILLIAM BLAIR & COMPANY

NEEDHAM & COMPANY

CRAIG-HALLUM CAPITAL GROUP

DOUGHERTY & COMPANY LLC

, 2012

Table of Contents**Table of Contents**

	Page
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	9
<u>Forward-Looking Statements</u>	29
<u>Use of Proceeds</u>	30
<u>Price Range of Common Stock</u>	30
<u>Dividend Policy</u>	30
<u>Selected Consolidated Financial Data</u>	31
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Business</u>	61
<u>Management</u>	73
<u>Executive Compensation</u>	82
<u>Certain Relationships and Related Party Transactions</u>	104
<u>Principal and Selling Shareholders</u>	107
<u>Description of Capital Stock</u>	109
<u>Shares Eligible for Future Sale</u>	113
<u>Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders</u>	115
<u>Underwriters</u>	118
<u>Market and Industry Data</u>	122
<u>Legal Matters</u>	122
<u>Experts</u>	122
<u>Where You Can Find Additional Information</u>	122
<u>Index to Consolidated Financial Statements</u>	F-1

Neither we, the selling shareholders, nor the underwriters have authorized anyone to provide you with information different than that contained in this prospectus or in any free writing prospectus we may specifically authorize to be delivered or made available to you in connection with this offering. We and the selling shareholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information in this prospectus or a free writing prospectus is accurate only as of its date, regardless of its time of delivery or the time of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States: None of us, the selling shareholders, or the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside the United States.

Table of Contents

Prospectus Summary

*This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before making an investment decision. We urge you to read the entire prospectus carefully, including the historical consolidated financial statements and the notes to those financial statements included in this prospectus, as well as the information included in any free writing prospectus that we have authorized for use in connection with this offering, before making an investment decision. Please read the sections entitled *Risk Factors* and *Forward-Looking Statements* for more information about important risks that you should consider before investing in our common stock.*

Overview

We are a leading online and technology-enabled quick-turn manufacturer of custom parts for prototyping and short-run production. We provide *Real Parts, Really Fast* to product developers worldwide, who are under increasing pressure to bring their finished products to market faster than their competition. We utilize computer numerical control, or CNC, machining and injection molding to manufacture custom parts for our customers. Our proprietary technology eliminates most of the time-consuming and expensive skilled labor conventionally required to quote and manufacture parts in low volumes. Our customers conduct nearly all of their business with us over the Internet. We target our services to the millions of product developers who use three-dimensional computer-aided design, or 3D CAD, software to design products across a diverse range of end-markets. We believe our use of advanced technology enables us to offer significant advantages at competitive prices to many product developers and is the primary reason we have become a leading supplier of low-volume custom parts.

We believe low-volume manufacturing has historically been an underserved market due to the inefficiencies inherent in the quotation, equipment set-up and non-recurring engineering processes required to produce custom parts. Our proprietary technology and sophisticated algorithms have enabled us to automate and integrate the majority of these activities. Our customers typically order low volumes of custom parts because they need a prototype to confirm the form, fit and function of one or more components of a product under development, or because they need an initial supply of parts to support pilot production while their high-volume production mold is being prepared, or because their product will only be released in a limited quantity. In each of these instances, we believe our solution provides product developers with an exceptional combination of speed, competitive pricing, ease of use and reliability that they typically cannot find among conventional custom parts manufacturers. Our technology and manufacturing expertise enable us to ship parts in as little as one business day after receipt of a customer's design submission and process a large number of submissions. As a result of the factors described above, many of our customers tend to return to Proto Labs to meet their ongoing needs, with approximately 77%, 77%, 81%, and 85% of our revenue in 2009, 2010, 2011, and the nine months ended September 30, 2012, respectively, derived from existing customers who had placed orders with us in prior years.

We have experienced significant growth since our inception in 1999. We have grown our total revenue from \$35.9 million in 2007 to \$98.9 million in 2011 and \$92.4 million in the nine months ended September 30, 2012. We have grown our income from operations from \$8.4 million in 2007 to \$26.9 million in 2011 and \$24.7 million in the nine months ended September 30, 2012.

Our Industry and Market Opportunity

We serve product developers worldwide who bring new ideas to market in the form of products containing one or more custom mechanical parts. Many of these product developers use 3D CAD software to create digital models representing their custom part designs that are then used to create physical parts for prototyping, functional testing, market evaluation or eventual production.

Edgar Filing: Proto Labs Inc - Form S-1/A

Custom prototype parts play a critical role in the product development process, as they provide product developers with the ability to confirm their intended performance requirements and explore design alternatives.

Table of Contents

Early in the product development process, additive rapid prototyping processes such as stereolithography, selective laser sintering, fused deposition modeling or 3D printing can be used to quickly produce an approximate physical representation of a part, but these representations often do not meet product developers' requirements for dimensional accuracy, cosmetics and material properties. As an alternative or supplement to additive rapid prototyping, CNC machining can be used to produce low volumes of high-quality custom parts in either metal or plastic, while for follow-on functional testing, market evaluation and production runs, plastic parts are typically manufactured using injection molding. Both CNC machining and injection molding yield a part with the look, feel and performance of the finished product.

There are several important trends impacting product developers worldwide, including the increasing use of e-commerce to bring efficiency, collaboration and immediate access to information, the increasing pressure to accelerate the speed with which they can bring their new products to market, and the increasing adoption of 3D CAD software to facilitate the design of custom mechanical parts.

We know of no published third-party estimates of our specific addressable markets. Our Protomold injection molding service addresses a subset of the plastic injection molding market, which Plastics Custom Research, a market research firm, estimates was \$50.3 billion in North America in 2010. Our Firstcut CNC machining service addresses a subset of the machine shop services segment, which IBISWorld, a market research firm, estimates was \$34.9 billion in the United States in 2010. In addition, according to Jon Peddie Research, a market research firm, in December 2009 there were approximately 13 million users of CAD software worldwide, of which approximately 41%, or 5.3 million, were users of 3D CAD software. We believe a substantial portion of these 3D CAD users were product developers working in industries we serve, although we do not serve every application within these industries. From the inception of our company in 1999 through September 30, 2012, we have filled orders for approximately 26,000 product developers.

Our Solution

We have developed proprietary software and advanced manufacturing processes that automate much of the skilled labor conventionally required in quoting, production engineering and manufacturing custom parts. We believe our interactive web-based interface and highly automated processes address the desires of many product developers for a fast, efficient and competitively priced means of obtaining low-volume custom parts. Key elements of our solution include:

Sophisticated Technology that Reduces Turnaround Time. Our platform automates many aspects of the entire process from design submission through manufacturability analysis and feedback, quotation, order submission, mold design, tool path generation and mold or part manufacture. As a result, in many cases we are able to quote orders in minutes and ship parts in as little as one business day.

Enhanced Customer Experience. Our web-based customer interface provides a straightforward means of submitting 3D CAD part designs. Our technology can quickly analyze manufacturability and in many cases provides suggested design modifications to enhance manufacturability. Our interactive quotations provide instant visibility into the impact of changing an order's various parameters such as material, finish, quantity or shipping schedule.

Attractive Low-Volume Pricing. Based on internal market research, we believe we generally have competitive pricing on low-volume orders. We believe this is a direct result of our technology and the efficiency of our operations, both of which were designed specifically for low-volume production.

Scale to Process Large Numbers of Unique Part Designs. Our proprietary, highly scalable quoting technology enables us to quickly analyze high volumes of 3D CAD part design submissions and provide feedback to our prospective product developer customers. Our proprietary manufacturing automation technology is also highly scalable, enabling us to process large numbers of unique designs and efficiently manufacture the related parts to meet the needs of product developers.

Table of Contents

Our Competitive Advantages

We believe our leadership position is based on a number of distinct competitive advantages:

Advanced Proprietary Technology. Our proprietary technology automates much of the skilled labor conventionally required to quote and manufacture low-volume custom parts, including the often time-consuming steps of design submission, manufacturability analysis and feedback, quotation, order submission, mold design, tool path generation, mold or part manufacture, and production management. We believe our competitors typically lack the expertise and resources to develop similar technology.

Turnaround Speed. We believe we are generally the fastest provider of low-volume custom CNC machined or injection molded parts. Our solution allows product developers to submit designs at any time and enables us to ship parts to our customers in as little as one business day. Our competitors often require several days just to generate a price quotation and even longer if the order parameters are subsequently changed by the product developer.

Operations Designed for Low-Volume Manufacturing. Unlike conventional custom parts manufacturers, our operating model is specifically designed for efficient low-volume production. Our customer interactions occur primarily online, and our proprietary technology eliminates much of the skilled labor that typically accounts for a significant portion of the total costs in the low-volume custom parts manufacturing environment and enables us to quote many thousands of CNC machined or injection molded part designs per month, which we believe few of our competitors can match.

Marketing and Sales Strength. We have developed expertise in marketing to product developers, both within our existing customer companies and at companies we have not yet served. We have also built a professionally-led international sales organization focused on quickly following up on marketing leads and quotation requests, understanding our customers' internal initiatives and converting prospects into customers. We believe that most of our competitors lack the expertise and resources to establish and maintain an organized, international program of similar scale.

Deep Industry Knowledge. We believe that the volume of new custom part designs we process and the size and diversity of our customer base give us unique insight into the needs of our prospective customers. This has allowed us to focus our development resources on areas that we believe represent significant opportunities for our business.

Our Growth Strategy

The principal elements of our growth strategy are to:

Increase Penetration of Existing Customer Companies. We plan to expand our customer base to include more product developers within the companies that have already used our services. We believe a significant opportunity exists for us to leverage highly satisfied product developers to encourage others within the same organization to utilize our services, and we plan to combine these word-of-mouth referrals with the efforts

of our marketing and sales force to identify and market our services to the colleagues of our existing customers.

Acquire New Customer Companies in Existing Geographic Markets. We plan to use our marketing and sales capabilities to continue to pursue product developers within companies who have not yet used our services. Our presence in geographic regions that have high populations of 3D CAD users provides us with a broad universe of potential new customer companies on which to focus our marketing and sales efforts.

Expand the Range of Parts We Offer. We regularly analyze the universe of customer design submissions that we are currently unable to manufacture and focus a significant portion of our research and development efforts on expanding the size and geometric complexity of the parts we are able to manufacture and the diversity of materials we are able to support in order to meet the needs of a broader set of product developers and consequently convert a higher number of quotation requests into orders.

Table of Contents

Introduce New Manufacturing Processes. We seek to identify additional manufacturing processes to which we can apply our technology and expertise to meet a greater range of product developers' needs. We regularly evaluate new manufacturing processes that may attract new customers and provide us with an opportunity to cross-sell with our existing services to our existing customer base, and we introduce such services when we are confident that a sufficient market need exists and we can offer the same advantages our customers have come to expect from us.

Expand into New Geographic Markets. We believe there may be opportunities to grow by identifying and expanding into select additional geographic markets. We currently operate in the United States, Europe and Japan, where we believe a substantial portion of the world's product developers are located. We believe opportunities exist to serve the needs of product developers in select new geographic regions.

Capitalize on Increasing Customer Expectations for 24/7 Access to Comprehensive, User-Friendly E-Commerce Capabilities. We plan to further enhance the functionality and ease of use of our platform and expand the capabilities of our technology in order to further increase automation and meet the evolving needs of product developers worldwide. We will continue to use the Internet to provide product developers with a standardized interface through which they can upload their 3D CAD models and obtain firm, interactive quotations quickly and efficiently.

Risk Factors

Our business is subject to numerous risks, as more fully described in the section entitled "Risk Factors" immediately following this prospectus summary, beginning on page 9. You should read these risks before you invest in our common stock. We may be unable, for many reasons, including those that are beyond our control, to implement our business strategy. In particular, some of the risks associated with our business include:

the level of competition in our industry and our ability to compete;

our ability to continue to sell to existing customers and sell to new customers;

our ability to respond to changes in our industry;

our ability to meet the needs of product developers;

our ability to meet product developers' expectations regarding quick turnaround time and price;

any failure to maintain and enhance our brand;

our ability to process a large volume of designs and identify significant opportunities in our business;

Edgar Filing: Proto Labs Inc - Form S-1/A

the adoption rate of e-commerce and 3D CAD software by product developers;

the loss of key personnel or failure to attract, integrate and retain additional personnel;

our ability to effectively grow our business and manage our growth;

system interruptions at our operating facilities, in particular our Maple Plain, Minnesota location;

our ability to protect our intellectual property and not infringe others' intellectual property; and

our ability to effectively operate as a public company.

Corporate Information

Proto Labs, Inc. was incorporated in Minnesota in 1999. The address of our principal executive offices is 5540 Pioneer Creek Drive, Maple Plain, Minnesota 55359, and our telephone number at this address is (763) 479-3680. Our website address is www.protolabs.com. The information contained in or that can be accessed through our website is not part of this prospectus.

Table of Contents

Unless the context indicates otherwise, as used in this prospectus, the terms Proto Labs, we, us and our refer to Proto Labs, Inc. and its subsidiaries taken as a whole.

Proto Labs®, Protomold®, Firstcut®, ProtoQuote® and FirstQuote® are registered trademarks in the United States and certain other countries. This prospectus also includes references to trademarks and service marks of other entities, and those trademarks and service marks are the property of their respective owners.

Table of Contents

The Offering

Common stock offered by us	100,000 shares
Common stock offered by selling shareholders	3,500,000 shares
Common stock to be outstanding immediately after this offering	24,402,437 shares
Option to purchase additional shares	Certain of the selling shareholders have granted the underwriters an option to purchase up to 540,000 additional shares of our common stock. This option is exercisable, in whole or in part, for a period of 30 days from the date of this prospectus.
Use of proceeds	We intend to use the net proceeds to us from this offering to pay the expenses we will incur in connection with this offering and for working capital and general corporate purposes. We will not receive any of the proceeds from the sale of shares by the selling shareholders. See Use of Proceeds and Principal and Selling Shareholders .
Risk factors	Investing in our common stock involves a high degree of risk. You should read the Risk Factors section of this prospectus beginning on page 9 and all of the other information set forth in this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
New York Stock Exchange listing	Our common stock is listed on the New York Stock Exchange under the symbol PRLB .

Outstanding Shares

The number of shares of our common stock that will be outstanding immediately after this offering is based on 24,302,437 shares outstanding as of September 30, 2012, and excludes as of that date:

1,762,841 shares of common stock issuable upon the exercise of outstanding options under our 2000 Stock Option Plan, having a weighted average exercise price of \$7.05 per share;

239,300 shares of common stock issuable upon the exercise of outstanding options under our 2012 Long-Term Incentive Plan, having a weighted average exercise price of \$28.02 per share;

3,872,266 additional shares of common stock reserved for future issuance under our 2012 Long-Term Incentive Plan; and

Edgar Filing: Proto Labs Inc - Form S-1/A

1,500,000 additional shares of common stock reserved for future issuance under our Employee Stock Purchase Plan.

Except as otherwise indicated, information in this prospectus assumes no exercise of the underwriters' option to purchase additional shares.

Table of Contents**Summary Consolidated Financial Data**

The following tables set forth our summary consolidated financial data for the periods and at the dates indicated. The summary consolidated financial data for the years ended December 31, 2009, 2010 and 2011 and as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the nine months ended September 30, 2011 and 2012 and as of September 30, 2012 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The consolidated pro forma data are unaudited, are presented for informational purposes only and do not purport to represent what our financial results or position actually would have been had the events so described occurred on the dates indicated or to project our financial position as of any future date. Our unaudited consolidated financial statements for the nine months ended September 30, 2011 and 2012 have been prepared on the same basis as the annual financial statements and include all adjustments, which include only normal recurring adjustments, necessary for fair presentation of this data in all material respects. Our operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period. This information should be read in conjunction with Risk Factors, Selected Consolidated Financial Data, Management Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,			Nine Months Ended	
	2009	2010	2011	September 30, 2011	2012
(in thousands, except share and per share amounts)					
Consolidated Statements of Comprehensive Income Data:					
Revenue	\$ 43,833	\$ 64,919	\$ 98,939	\$ 73,302	\$ 92,375
Cost of revenue	18,559	25,443	39,324	28,251	37,242
Gross profit	25,274	39,476	59,615	45,051	55,133
Operating expenses:					
Marketing and sales	8,262	10,867	15,752	11,139	13,440
Research and development	3,140	4,281	5,222	3,639	6,622
General and administrative	5,965	7,629	11,772	8,297	10,394
Loss on impairment of foreign subsidiary assets		773			
Total operating expenses	17,367	23,550	32,746	23,075	30,456
Income from operations	7,907	15,926	26,869	21,976	24,677
Other income (expense), net	(517)	(213)	(114)	18	(90)
Income before income taxes	7,390	15,713	26,755	21,994	24,587
Provision for income taxes	3,167	4,762	8,783	7,252	7,957
Net income	4,223	10,951	17,972	14,742	16,630