Proto Labs Inc
Form 10-K
March 22, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-35435

Proto Labs, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota	41-1939628
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5540 Pioneer Creek Drive Maple Plain, Minnesota	55359
(Address of principal executive offices)	(Zip Code)

(763) 479-3680

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.001 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

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. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 29, 2012 (the last business day of the Registrant s most recently completed second fiscal quarter), the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $162.7 million.

As of March 8, 2013, there were 25,120,156 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference to Part III of this Annual Report on Form 10-K.

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Special Note Regarding Forward Looking Statements

Statements contained in this Annual Report on Form 10-K regarding matters that are not historical or current facts are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by the following words: may, will, could, would, should, expect, intend, plan, anticipate, believe, estimate, pr continue, ongoing or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors which may cause our results to be materially different than those expressed or implied in such statements. 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;
- 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.

Certain of these factors and others are described in the discussion on risk factors that appear in Part I, Item 1A: Risk Factors of this Annual Report on Form 10-K and uncertainties detailed in this and other reports and filings with the Securities and Exchange Commission (SEC). Other unknown or unpredictable factors also could have material adverse effects on our future results. We cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not place undue reliance on these forward-looking statements. Finally, we

expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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PART I

Item 1. Business

Overview

Proto Labs, Inc. was incorporated in Minnesota in 1999. The terms Proto Labs, the Company, we, us, and our as used herein refer to the bus and operations of Proto Labs, Inc. and its subsidiaries. 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 (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 (3D CAD) software to design products across a diverse range of end-markets. We have established our operations in the United States, Europe and Japan, which we believe are three of the largest geographic markets where these product developers are located. 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 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 enables us to ship parts in as little as one business day after receipt of a customer s design submission.

Our proprietary technology enables us to automate and integrate the majority of activities involved in procuring custom low-volume parts, starting with our web interface through which a product developer submits a 3D CAD part design. We have developed complex algorithms to quickly analyze the geometry of the design to analyze its manufacturability. In many cases, our software provides suggested design modifications to enhance manufacturability, presented to the product developer in a color-coded 3D representation of the part. Our automated pricing algorithm generates a firm price that is incorporated into a highly interactive web-based quotation, which allows the product developer to change a variety of parameters and instantly receive an updated price. Once the order is entered online, our manufacturing software calculates the required instructions for a CNC machine to make the part or related mold. Our system is highly scalable and capable of processing a large number of design submissions. As a result of the factors described above, we have significantly reduced many of the inefficiencies involved in serving the low-volume manufacturing market, while scaling our business to generate quotations on over 310,000 design submissions in 2012. And, as a further result, many of our customers tend to return to Proto Labs to meet their ongoing needs, with approximately 84%, 81% and 77% of our revenue in 2012, 2011 and 2010, respectively, derived from existing customers who had placed orders with us in prior years.

Our manufacturing services currently include CNC machining and plastic injection molding. We continually seek to expand the range of size and geometric complexity of the parts we can make with these processes, to extend the variety of materials we are able to support and to identify additional manufacturing processes to which we can apply our technology in order to better serve the evolving preferences and needs of product developers. See Risk Factors If our present single or limited source suppliers become unavailable or inadequate, our customer relationships, results of operations and financial condition may be adversely affected for a discussion of the sourcing and availability of materials. We also plan to grow our business by further penetrating the universe of product developers at the customer companies we have already served, attracting new customer companies in the geographic markets in which we already have an established presence, and selectively entering new geographic markets.

We have experienced significant growth since our inception in 1999. We have grown our total revenue from $44.4 million in 2008 to $126.0 million in 2012. We have grown our income from operations from $10.7 million in 2008 to $34.9 million in 2012.

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Industry Overview

Our Industry

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. 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. From the inception of our company in 1999 through December 31, 2012, we have filled orders for approximately 28,000 product developers.

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.

Trends Affecting the Product Development Process

There are several important trends impacting product developers worldwide.

Increasing E-Commerce Expectations

The Internet is a tool that is deeply integrated into the everyday activities of product developers, many of whom have come to expect a comprehensive set of integrated web-based capabilities and 24 hours a day, seven days a week access from their vendors. As product developers increasingly work with partners and vendors across various geographies and time zones, the Internet allows them to work collaboratively and immediately access information at any time and from anywhere in the world.

Accelerating Time to Market

Product developers are facing increased pressure from global competitors to be first to market with their finished products. In addition, rapid advances in technology and consumer demand for the latest products are driving shorter product life cycles in many industries. This makes it ever more critical to obtain prototype parts quickly and identify problems in a product design early to minimize delays.

Increasing Adoption of 3D CAD Software

For product developers involved in mechanical part design, 3D CAD has inherent advantages over 2D CAD because it provides a complete description of the part s geometric design. As a result, many of these product developers continue to migrate from using 2D CAD to using 3D CAD for their design needs.

Challenges Confronting Product Developers

The trends affecting our industry create a variety of challenges for product developers.

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Inadequate Turnaround Time

We believe most conventional custom parts manufacturers do not have the automated capability to analyze a design and then quote, manufacture and ship custom parts fast enough to satisfy the time-to-market needs of many product developers. Quotation and order placement from these custom parts manufacturers can take anywhere from a few days to weeks, and frequently require face-to-face interaction. In addition, once an order is placed, conventional custom parts manufacturers typically require a significant amount of manual engineering before manufacturing can begin.

Difficulty in Sourcing Low-Volume Custom Parts

We believe many custom parts manufacturers prefer the higher asset utilization inherent in high-volume production and therefore may decline or assign a lower priority to low-volume orders. In addition, those custom parts manufacturers that do take low-volume orders often lack the scale to produce significant numbers of different parts at the same time. This is particularly problematic for product developers with products requiring multiple custom parts, as these developers consequently may need to disperse and coordinate orders among several manufacturers.

Most Custom Parts Manufacturers Lack an Interactive Web-Based Interface

We believe most custom parts manufacturers lack the technology to offer an interactive web-based interface and quoting system, which can result in significant inconveniences for product developers. Business can typically be transacted only during the business day, frequently requires face-to-face interactions and is generally conducted without the web-centric convenience that product developers have come to expect in other aspects of their professional and personal lives.

High Cost

Many product developers find low-volume custom parts manufacturing to be expensive due to the manufacturer s significant up-front non-recurring engineering costs and the additional costs incurred to support high-volume production, both of which must be absorbed over a small quantity of parts. Therefore, we believe most custom parts manufacturers are not well equipped to fulfill significant numbers of low-volume orders at competitive prices.

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 cost-effective means of obtaining low-volume custom parts. We also believe the use of our advanced technology to bring speed and efficiency at competitive prices to product developers is the primary reason we have become a leading supplier of low-volume custom CNC-machined and injection molded parts.

Key elements of our solution include:

Sophisticated Technology that Reduces Turnaround Time

Our web-based interface and proprietary software automate many of the manual and time-consuming processes typically required to obtain custom CNC-machined or injection molded parts from conventional suppliers. 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. Our prospective customers upload a 3D CAD file of their required part through our website, and often within minutes our software analyzes the manufacturability of the product and, if we are able to make the part, returns a firm price quotation with any recommendations for design modifications. Our quoting system is highly interactive, enabling our prospective customers to change the material, finish, quantity or shipping schedule of orders, and to instantly receive an updated quotation. Once an order is received, our software automates much of the mold design, tool path generation and mold or part manufacture that normally require skilled labor. 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 proprietary manufacturability analysis then quickly analyzes whether a part design falls within our manufacturing capabilities. In many cases, our software provides suggested

design modifications to enhance manufacturability, presented to the product developer in an interactive quotation containing a color-coded 3D representation of the part. This allows product developers to quickly determine the manufacturability of their parts, what they will cost and when they can be shipped. Our interactive quotations provide instant visibility into the impact of changing an order s various parameters such as material, finish, quantity or shipping schedule. As a result, we provide product developers with an easy-to-use and consistent means of obtaining custom parts.

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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. By automating and integrating many of the manual processes conventionally involved in quoting and manufacturing low-volume custom CNC-machined and injection molded parts, we have significantly reduced or eliminated most of the non-recurring engineering labor costs associated with these processes. These costs are typically a significant portion of the total costs in the low-volume custom parts manufacturing environment, and as a result, we can typically offer product developers competitive prices on low-volume custom manufactured parts.

Scale to Process Large Numbers of Unique Part Designs

Our proprietary, highly scalable quoting technology addresses the manual processes conventionally involved in submitting a design, analyzing its manufacturability, making design revision recommendations and generating price quotations. This enables us to quickly analyze high volumes of 3D CAD part design submissions and provide feedback to our prospective product developer customers. In 2012 alone, we generated quotations for over 310,000 design submissions. 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.

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. This technology has been developed and continually expanded and refined over our 13 years of providing custom mold and part manufacturing services to our customers. We believe our proprietary technology gives us significant advantages over our competitors, who 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.

By automating many of the manual and time-consuming steps conventionally required to obtain low-volume custom parts, we have established a unique advantage over our competitors that lack similar capabilities. Our proprietary technology and advanced manufacturing processes allow product developers to submit designs at any time and enable 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 may take even more time 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 conventionally required for manufacturability analysis and feedback, quotation, order submission, mold design, tool path generation and mold or part manufacture. These functions typically account for a significant portion of the total costs in the low-volume custom parts manufacturing environment. Our automation 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.

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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 attract customers by using a variety of marketing tactics, resulting in both lead generation and brand reinforcement. Through December 31, 2012, we have generated a database of over 295,000 product developers that represent current or potential future users of our services.

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, converting prospects into customers by conveying our value proposition, and finding additional leads within our existing customer companies. We believe that our marketing and sales organization is a key competitive advantage and 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. Through December 31, 2012, we have received over 1,000,000 uploaded part designs, sent over 875,000 part quotations and shipped over 200,000 unique parts to approximately 28,000 product developers representing over 13,000 customer companies across a wide range of industries.

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. Individual product developers typically make or influence the choice of vendor when sourcing low-volume custom parts. 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. We have historically generated a significant number of new customers through word-of-mouth referrals from other product developers, and we plan to combine these referrals with the efforts of our marketing and sales force to identify and market our services to the colleagues of our existing customers.

Gain 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 range of parts that we can produce. Since we first introduced our Protomold injection molding service in 1999, we have steadily expanded the size and geometric complexity of the injection molded parts we are able to manufacture, and we continue to extend the diversity of materials we are able to support. Similarly, since first introducing our Firstcut CNC machining service in 2007, we have expanded the range of part sizes, design geometries and materials we can support. For example, during 2012 we expanded the number of materials we offer to include a variety of high temperature resins available through our Protomold injection molding service and steel, stainless steel, magnesium and copper in our Firstcut machining service. As we continue to expand the range of our existing process capabilities, we believe we will meet the needs of a broader set of product developers and consequently convert a higher number of quotation requests into orders.

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. Introducing new manufacturing processes can both attract new customers and provide us with a significant opportunity to

cross-sell with our existing services to our existing customer base. As an example of a new manufacturing process, our Firstcut service was first introduced in the United States in 2007 and has grown to represent 28% of our total revenue in the year ended December 31, 2012. We regularly evaluate new manufacturing processes to offer product developers and introduce such new processes when we are confident that a sufficient market need exists and that we can offer the same advantages our customers have come to expect from us. For example, during 2012 two of our largest research and development initiatives have revolved around thixomolding of

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magnesium and metal injection molding of steel alloys. During the fourth quarter of 2012, we were successful in launching the operation of the thixomolding process and have shipped molded magnesium parts to a small group of customers. As it relates to metal injection molding of steel alloys, we have installed a complete manufacturing line and have begun the process of manufacturing and testing sample parts. In 2013, we plan to continue to progress on each of these initiatives towards commercialization as a product offering to our customers. See Selected Consolidated Financial Data for disclosure of our historical research and development expenses.

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 entered the European market in 2005, and by 2012, this region represents approximately 18% of our total revenue. We launched operations in Japan in late 2009 and, while still in the development stage, have achieved enough growth there to prompt a move into a larger facility in early 2012. While we currently do not have specific plans to expand into any particular geographic markets, we believe opportunities exist to serve the needs of product developers in select new geographic regions and we will continue to evaluate such opportunities if and when they arise. For discussion of our financial information about the geographic markets where we operate, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation and Note 16 Segment and Geographic Information in our consolidated financial statements.

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 believe product developers have come to expect advanced web-based tools and a fully integrated Internet platform from their vendors. 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.

Our Services

Our Firstcut and Protomold services offer many product developers the ability to quickly and efficiently outsource their low-volume, quick-turn custom parts manufacturing. See Management s Discussion and Analysis of Financial Condition and Results of Operations for the historical revenue generated by each of Firstcut and Protomold.

Firstcut

Our Firstcut service uses commercially-available CNC machines to cut plastic or metal blocks into one or more custom parts based on the 3D CAD model uploaded by the product developer. Our efficiencies derive from the automation of the programming of these machines and a proprietary fixturing process. The Firstcut service is well suited to produce small quantities, typically in the range of one to ten parts.

Protomold

Our Protomold service uses our 3D CAD-to-CNC machining technology for the automated design and manufacture of aluminum injection molds, which are then used to produce custom injection-molded plastic parts on commercially-available equipment. Our Protomold service is used for both prototype and short-run production. Prototype quantities typically range from 25 to 100 parts. Because we retain possession of the molds, customers who need short-run production often come back to Protomold for additional quantities typically ranging up to 10,000 parts. They do so either to support pilot production while their tooling for high-volume production is being prepared or because their product will only be released in a limited quantity. These additional part orders typically occur on approximately 50% of the molds that we make, typically accounting for approximately half of our total Protomold revenue.

The process for both Firstcut and Protomold begins when the product developer uploads one or more 3D CAD models representing the desired part geometry. Our proprietary software uses complex algorithms to analyze the 3D CAD geometry, analyze its manufacturability and support the creation of an interactive, web-based quotation containing pricing and manufacturability information. A link to the quotation is then e-mailed to the product developer, who can access the quotation, change a variety of order parameters and instantly see the effect on price before finalizing the order. For Firstcut, the tool paths are then reviewed and routed to our high-speed CNC machining centers for execution. In the case of Protomold, our proprietary software supports the creation of the mold design and the tool paths required to manufacture the mold components, which are then routed to our CNC machining centers for execution. Once the mold is assembled, it is placed in one of our injection molding presses to create the required parts. For both our Firstcut and Protomold services, we ship parts in as little as one business day from design submission. We ship our parts via small parcel common carriers on standard terms and conditions.

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The following diagram summarizes the technology-enabled processes described above:

Our Technology

Our technology eliminates much of the skilled labor conventionally associated with quoting and preparing a new part design for manufacture. Our proprietary software largely automates the areas of manufacturability analysis and feedback, price quotation, order submission, mold design, tool path generation, mold or part manufacture and production management. The more computationally intensive aspects of this software utilize a proprietary parallel processing software environment running on our in-house compute cluster servers.

Manufacturability Analysis

Our proprietary software analyzes the 3D CAD models submitted by our customers to determine the extent to which they are suitable for our standardized manufacturing processes. In the case of CNC machining, this manufacturability analysis identifies features that may be too fragile to be machined and areas that cannot be machined at all. For injection molding, problematic features such as undercuts, thin areas, thick areas and areas requiring geometry adjustments to allow the part to be ejected from the mold are identified. Many of our customers find this analysis particularly helpful, as it diagnoses and prevents potential problems prior to manufacturing. We can also provide a flow analysis to identify parts that may be so thin and large that plastic will solidify before the mold can be completely filled. Our manufacturability analysis plays a major role in our automated pricing algorithms.

Web-Based Quotation

We have branded our Firstcut and Protomold automated quotation systems as FirstQuote and ProtoQuote. Both deliver an interactive graphical quotation to the customer in the form of a web page that includes a color-coded 3D representation of the part highlighting features relevant to manufacturability. In some cases, features are indicated that must be changed to be compatible with our process. We also highlight and recommend design improvements that might be made to improve the manufacturability of the part, or to indicate any possible deviations between the part as it was designed and how it will be manufactured. The web-based quotation allows the customer to change material, finish, quantity or shipping schedule of orders. Pricing indicated on the web-based quote instantly updates after each of these changes.

Mold Design

Our software technology and mold manufacturing system have co-evolved over more than 13 years of development, resulting in a standardized and efficient process for taking a customer s 3D CAD model and creating the physical mold needed to make plastic parts. Our software enables our mold designers to quickly create the mold geometry specific to the customer s part and automates the design of most other mold features, thus eliminating much of the skilled labor normally associated with mold design in a conventional environment.

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Automated Tool Path Generation

In support of both our Firstcut and Protomold services, our proprietary software automates much of the skilled labor conventionally needed to generate the tool paths necessary to machine the required parts and mold components. Our software automation allows our users to do in minutes what can often require hours or days of labor for manufacturers using commercial computer-aided manufacturing (CAM) software.

Parallel Processing

The mathematical algorithms required to analyze manufacturability and generate tool paths are computationally intensive. We have developed a proprietary parallel processing software environment to accelerate the processing of individual jobs and allow straightforward scalability to a large number of jobs. This software system typically runs on a cluster of industry-standard 64-bit computers connected to each other and to our internal users computers over an isolated gigabit Ethernet local area network. We currently have clusters in multiple manufacturing facilities, two in the United States and one each in the United Kingdom and Japan.

Monitoring and Control

We have developed a proprietary, intranet-based monitoring and control system that allows us to monitor key aspects of our entire worldwide operations in real time using an easy to understand management dashboard. This system provides us with the ability to quickly react to new information across our organization.

Marketing

Our international, integrated marketing effort generates leads for our sales teams and seeks to strengthen our reputation as a leader in the field of quick turn, low-volume custom manufacturing. Much of our marketing activities occur over the Internet. We use marketing automation software to enhance the productivity of our sales and marketing teams and to track results of all campaigns to enhance our marketing return on investment.

We maintain brand awareness with product developers through the regular distribution of technical information including design guidelines, engineering white papers and a quarterly journal targeted at product developers. We also send out product giveaways that highlight technical aspects of injection molding we feel would be of interest to product developers. We believe these educational materials are key aspects of our lead generation efforts. In our Cool Idea! marketing program, we plan to award up to a total of $250,000 of our services to entrepreneurs with cool ideas. In addition to supporting entrepreneurs and innovative product development, we believe this program can generate good will, press coverage and word-of-mouth brand awareness.

Sales and Customer Service

We maintain an internal sales team trained in the basics of part design and the capabilities of our manufacturing services, as well as the key advantages of our services over alternative methods of low-volume custom parts manufacturing. We organize our sales team into two complementary roles: business development and account management, the former focused on selling to new customer companies and the latter focused on expanding sales within existing customer companies. We believe our sales staff is adept at researching customer companies and networking to find additional product developers that may have a need for our services. We also have a team of customer service engineers who can support highly technical engineering discussions with product developers as required during the sales process. Our revenue is generated from a diverse customer base, with no single customer company representing more than approximately 2% of our total revenue in 2012.

Competition

The market for low-volume custom parts manufacturing is fragmented, highly competitive and subject to rapid and significant technological change. Our potential competitors include:

Captive in-house services. Many larger companies undertaking product development have established CNC machining, injection molding or additive rapid prototyping capabilities internally to support the prototyping requirements of their product developers.

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Other custom manufacturers. There are thousands of machine shops and plastic injection molding suppliers worldwide. The size and scale of these businesses range from very small specialty shops to large, high-volume production manufacturers.

Alternative manufacturing vendors. Various manufacturing processes, other than CNC machining and injection molding, are offered by other vendors. We generically refer to the most well known of these processes as additive rapid prototyping, which have been commercialized under labels such as stereolithography, selective laser sintering, fused deposition modeling and 3D printing.

We believe that the key competitive factors in our industry include:

Speed: turnaround time for quotations and parts;

Price: mold and piece part pricing;

Quality: dimensional accuracy, surface finish, material properties, color and cleanliness;

Capability: size and dimensional complexity of the part, materials supported and post-processing provided;

Capacity: ability to support multiple part designs in parallel; and

Service: overall customer experience, from web interface to post-sales support.

We believe that we have competitive strengths that position us favorably and have enabled us to become a leader in our markets. We also believe that substantially all of our current direct competitors are relatively small in terms of size of operations, revenue, number of customers and volume of parts sold, and generally lack our technological capabilities. However, our industry is evolving rapidly and other companies, including potentially larger and more established companies with developed technological capabilities, may begin to focus on low-volume custom parts manufacturing. These companies could more directly compete with us, along with our existing competitors, and both could also launch new products and services that we do not offer that may quickly gain market acceptance. Any of the foregoing could adversely affect our ability to attract customers.

Intellectual Property

We regard our patents, trademarks, service marks, trade dress, trade secrets, copyrights, domain names and other intellectual property as valuable to our business and rely on patent, trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our employees, customers, vendors and others to protect our proprietary rights. We register our patents, trademarks and service marks in the United States and other jurisdictions, as we deem appropriate. As of December 31, 2012, we own and have applications pending for patents relating to various aspects of our quoting and manufacturing processes as follows:

Jurisdiction	Issued Patents	Applications Pending
United States	15	1
United Kindgom	2	0
Germany	0	2

Our patents have expiration dates ranging from 2022 to 2031. We also own approximately 11 registered United States trademarks or service marks as of December 31, 2012, with corresponding registered protection in Europe and Japan for the most important of these marks such as PROTO LABS, PROTOMOLD, FIRSTCUT, PROTOQUOTE, FIRSTQUOTE and PROTOFLOW and corresponding registered protection in Australia, Canada and Mexico for PROTOMOLD. There can be no assurance that the steps we take to protect our proprietary rights will be

adequate or that third parties will not infringe or misappropriate such rights. We have been subject to claims and expect to be subject to legal proceedings and claims from time to time in the ordinary course of our business. In particular, we may face claims from third parties that we have infringed their patents, trademarks or other intellectual property rights. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results.

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Employees

As of December 31, 2012, we had 622 full-time employees. None of our employees is covered by a collective bargaining agreement. We consider our current relationship with our employees to be good. We also regularly use independent contractors and other temporary employees across the organization to augment our regular staff. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel.

Available Information

Our principal executive offices are located 5540 Pioneer Creek Drive, Maple Plan, Minnesota 55359 and our telephone number is (763) 479-3680. Our website address is www.protolabs.com. Information on our website does not constitute part of this Annual Report on Form 10-K or any other report we file or furnish with the SEC. We provide free access to various reports that we file with or furnish to the SEC through our website as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. Our SEC reports can be accessed through the investor relations section of our website or through the SEC s website at www.sec.gov.

Executive Officers of the Registrant

Set forth below are the names of our current executive officers, their ages, titles, the year first appointed as an executive officer, and employment for the past five years:

Lawrence J. Lukis	64	Chairman and Chief Technology Officer
Bradley A. Cleveland	52	President, Chief Executive Officer and Director
Edward E. Bolton	46	Vice President of Culture
William M. Dietrick	56	Vice President of Marketing
John R. Judd	56	Chief Financial Officer
Donald G. Krantz	57	Chief Operating Officer
Thomas H. Pang	52	Managing Director of Proto Labs G.K.
Jacqueline D. Schneider	47	Vice President of Sales and Customer Service
John B. Tumelty	42	Managing Director of Proto Labs, Limited

Executive officers of the Company are elected at the discretion of the Board of Directors with no fixed terms. There are no family relationships between or among any of the executive officers or directors of the Company.

Lawrence J. Lukis. Mr. Lukis founded our company in 1999 and has served as our Chairman and Chief Technology Officer since November 2001. In 1985, Mr. Lukis co-founded LaserMaster Corp. (later ColorSpan), an innovator in laser printing products for desktop publishers and large format color inject printers, and served as a director and Chief Technology Officer from 1985 to 1997. ColorSpan was acquired by MacDermid Inc. in 2000 and was subsequently resold to Hewlett-Packard in 2007. Mr. Lukis currently serves on the board of directors of Karbon Kinetics Ltd., a manufacturer of electric bicycles.

Bradley A. Cleveland. Mr. Cleveland has served as our President and Chief Executive Officer since November 2001. Prior to November 2001, Mr. Cleveland co-founded and was Vice President of AeroMet Corporation, a laser additive manufacturing subsidiary of MTS Systems Corporation.

Edward E. Bolton. Mr. Bolton has served as our Vice President of Culture since September 2011. From September 2006 to September 2011, Mr. Bolton served as Corporate Human Resources Director at Ryt-Way Industries, LLC, a packaging company.

William M. Dietrick. Mr. Dietrick has served as our Vice President of Marketing since May 2008 and as an interim President of our subsidiary in Japan from April 2010 to October 2010. From June 2005 to May 2008, Mr. Dietrick was a partner with Premise Immersive Marketing, a marketing consulting firm. From December 2005 to February 2008, Mr. Dietrick served as General Manager of Witt Vending Co., a vending and catering company. From 2002 to 2005, Mr. Dietrick was Vice President and General Manager of Landscape Structures, a commercial playground equipment manufacturer.

John R. Judd. Mr. Judd has served as our Chief Financial Officer since June 2011. From June 2006 to June 2011, Mr. Judd served as Chief Financial Officer of Compellent Technologies, Inc., a network-storage company. From October 2003 to July 2006, Mr. Judd served as Chief Financial Officer of ATS Medical, Inc., a medical device manufacturer. From June 2000 to October 2003, Mr. Judd served as Controller of American Medical Systems Holdings, Inc., a medical device manufacturer. From 1997 to 1999, Mr. Judd served as Chief Financial Officer of the Autoglass Division of Apogee Enterprises, Inc., a glass technology company.

Donald G. Krantz. Dr. Krantz has served as our Chief Operating Officer since January 2007. From November 2005 to January 2007, Dr. Krantz served as our Vice President of Development. Prior to joining our company, Dr. Krantz served in various roles at MTS Systems, Inc., a builder of custom precision testing and advanced manufacturing systems, including as a business unit Vice President, Vice President of Engineering, and most recently, Chief Technology Officer. Dr. Krantz was an Engineering Fellow at Alliant Techsystems and Honeywell, Inc., and was named the 2005 Distinguished Alumnus of the Department of Computer Science and Engineering at the University of Minnesota.

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Thomas H. Pang. Dr. Pang has served as the Managing Director of Proto Labs G.K. (Japan) since November 2010. Dr. Pang leads our company s operations in Japan. From June 1999 to November 2010, Dr. Pang held various positions at 3D Systems, Inc., a 3D content-to-print solutions company, most recently as Managing Director and as General Manager and Vice President of Asia-Pacific Operations at 3D Systems Japan K.K. and 3D Systems, Inc., respectively.

Jacqueline D. Schneider. Ms. Schneider has served as our Vice President of Sales and Customer Service since February 2007. From November 2005 to February 2007, Ms. Schneider served as National Sales Director for Comm-Works, LLC, a global technology provider.

John B. Tumelty. Mr. Tumelty has served as the Managing Director of Proto Labs, Limited, our subsidiary in the United Kingdom, since its inception in July 2005. Mr. Tumelty leads our company s operations in Europe. From March 1997 to June 2005, Mr. Tumelty held various positions at Western Thomson Plastics Ltd, an automotive systems supplier, most recently as Managing Director.

Item 1A. Risk Factors

The following are the significant factors that could materially adversely affect our business, financial condition, or operating results, as well as adversely affect the value of an investment in our common stock.

Risks Relating to Our Business

We face significant competition and expect to face increasing competition in many aspects of our business, which could cause our operating results to suffer.

The market for low-volume custom parts manufacturing is fragmented and highly competitive. We compete for customers with a wide variety of custom parts manufacturers and methods. Some of our current and potential competitors include captive in-house services, other custom manufacturers, and alternative manufacturing vendors such as those utilizing stereolithography, selective laser sintering, fused deposition modeling and 3D printing. Moreover, some of our existing and potential competitors are researching, designing, developing and marketing other types of products and services. We also expect that future competition may arise from the development of allied or related techniques for custom parts manufacturing that are not encompassed by our patents, from the issuance of patents to other companies that may inhibit our ability to develop certain products and from improvements to existing technologies. And our competitors may attempt to adopt and improve upon key aspects of our business model, such as development of technology that automates much of the manual labor conventionally required to quote and manufacture low-volume custom parts, implementation of interactive web-based and automated user interface and quoting systems and/or building scalable operating models specifically designed for efficient low-volume production. Third-party CAD software companies may develop software that mold-makers, injection molders and CNC machine shops could use to compete with our business model. Additive manufacturers may develop stronger, higher temperature resins or introduce other improvements that could more effectively compete with us on part quality. We may also, from time to time, establish alliances or relationships with other competitors or potential competitors. To the extent companies terminate such relationships and establish alliances and relationships with our competitors, our business could be harmed.

Existing and potential competitors may have substantially greater financial, technical, sales and marketing, manufacturing, distribution and other resources and name recognition than us, as well as experience and expertise in intellectual property rights and operating within certain international locations, any of which may enable them to compete effectively against us.

Though we plan to continue to expend resources to develop new technologies, processes and services, we cannot assure you that we will be able to maintain our current position or continue to compete successfully against current and future sources of competition. Our challenge in developing new services is finding services for which our automated quotation and manufacturing processes offer an attractive value proposition, and we may not be able to find any new services with potential economies of scale similar to our molding and machining services. If we do not keep pace with technological change and introduce new technologies, processes and services, the demand for our products and services may decline and our operating results may suffer.

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Our success depends on our ability to deliver products and services that meet the needs of product developers and to effectively respond to changes in our industry.

We derive almost all of our revenue from the manufacture and sale to product developers of quick-turn low volumes of custom parts for prototyping, support of internal manufacturing and limited quantity product release. Our business has been and we believe will continue to be affected by changes in product developer requirements and preferences, rapid technological change, new product and service introductions and the emergence of new standards and practices, any of which could render our technology, products and services less attractive, uneconomical or obsolete. To the extent that our customers need for quick-turn parts decreases for any reason, it would likely have a material adverse effect on our business and operating results and harm our competitive position. In addition, CAD simulation and other technologies may reduce the demand for physical prototype parts. Therefore, we believe that to remain competitive, we must continually expend resources to enhance and improve our technology, product offerings and services.

In particular, we plan to increase our research and development efforts and to continue to focus a significant portion of those efforts to further develop our technology in areas such as our interactive user interface and manufacturing processes, potentially introduce new manufacturing processes within the research and development initiative we refer to as Protoworks, and broaden the range of parts that we are able to manufacture. We believe successful execution of this part of our business plan is critical for our ability to compete in our industry and grow our business, and there are no guarantees we will be able to do so in a timely fashion, or at all. Broadening the range of parts we offer is of particular importance since limitations in manufacturability are the primary reason we are not able to fulfill many quotation requests. There are no guarantees that the resources devoted to executing on this aspect of our business plan will improve our business and operating results or result in increased demand for our products and services. Failures in this area could adversely impact our operating results and harm our reputation and brand. And even if we are successful in executing in these areas, our industry is subject to rapid and significant technological change, and our competitors may develop new technologies, processes and services that are superior to ours. Research and development costs were approximately $9.1 million, $5.2 million and $4.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K for additional discussion related to research and development costs.

Any failure to properly meet the needs of product developers or respond to changes in our industry on a cost-effective and timely basis, or at all, would likely have a material adverse effect on our business and operating results and harm our competitive position.

Our failure to meet our product developers expectations regarding quick turnaround time would adversely affect our business and results of operations.

We believe many product developers are facing increased pressure from global competitors to be first to market with their finished products, often resulting in a need for quick turnaround of custom parts. We believe our ability to quickly quote, manufacture and ship custom parts has been an important factor in our results to date. There are no guarantees we will be able to meet product developers increasing expectations regarding quick turnaround time, especially as we increase the scope of our operations. If we fail to meet our customers expectations regarding turnaround time in any given period, our business and results of operations will likely suffer.

Our failure to meet our product developers price expectations would adversely affect our business and results of operations.

Demand for our services is sensitive to price. We believe our competitive pricing has been an important factor in our results to date. Therefore, changes in our pricing strategies can have a significant impact on our business and ability to generate revenue. Many factors, including our production and personnel costs and our competitors pricing and marketing strategies, can significantly impact our pricing strategies. If we fail to meet our customers price expectations in any given period, demand for our products and services could be negatively impacted and our business and results of operations could suffer.

The strength of our brand is important to our business, and any failure to maintain and enhance our brand would hurt our ability to retain and expand our customer base as well as further penetrate existing customers.

Since our products and services are sold primarily through our websites, the success of our business depends upon our ability to attract new and repeat customers to our websites in order to increase business and grow our revenue. Customer awareness of, and the perceived value of, our brand will depend largely on the success of our marketing efforts, as well as our ability to consistently provide quality custom parts within the required timeframes and positive customer experiences, which we may not do successfully. A primary component of our business strategy is the continued promotion and strengthening of our brand, and we have incurred and plan to continue to incur substantial expense related to advertising and other marketing efforts directed toward enhancing our brand. We have initiated marketing efforts through social media, but this method of marketing may not be successful and subjects us to a greater risk of inconsistent messaging and bad publicity. We may choose to

increase our branding expense materially, but we cannot be sure that this investment will be profitable. If we are unable to successfully maintain and enhance our brand, this could have a negative impact on our business and ability to generate revenue.

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Our business depends in part on our ability to process a large volume of new part designs from a diverse group of product developers and successfully identify significant opportunities for our business based on those submissions.

We believe the volume of new part designs we process and the size and diversity of our customer base give us valuable insight into the needs of our prospective customers. We utilize this industry knowledge to determine where we should focus our development resources. If the number of new part designs we process or the size and diversity of our customer base decrease, our ability to successfully identify significant opportunities for our business and meet the needs of product developers could be negatively impacted. In addition, even if we do continue to process a large number of new part designs and work with a significant and diverse customer base, there are no guarantees that any industry knowledge we extract from those interactions will be successfully utilized to help us identify significant business opportunities or better understand the needs of product developers.

The loss of one or more key members of our management team or personnel, or our failure to attract, integrate and retain additional personnel in the future, could harm our business and negatively affect our ability to successfully grow our business.

We are highly dependent upon the continued service and performance of the key members of our management team and other personnel. The loss of any of these individuals, each of whom is at will and may terminate his or her employment relationship with us at any time, could disrupt our operations and significantly delay or prevent the achievement of our business objectives. We believe that our future success will also depend in part on our continued ability to identify, hire, train and motivate qualified personnel. We conduct our operations in the United States at our facilities located in the greater metropolitan areas of Minneapolis and St. Paul, Minnesota. A possible shortage of qualified individuals in this region might require us to pay increased compensation to attract and retain key employees, thereby increasing our costs. In addition, we face intense competition for qualified individuals from numerous companies, many of whom have substantially greater financial and other resources and name recognition than us. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing operational, managerial and other requirements, or we may be required to pay increased compensation in order to do so. Our failure to attract, hire, integrate and retain qualified personnel could impair our ability to achieve our business objectives.

If we fail to grow our business as anticipated, our net sales, gross margin and operating margin will be adversely affected.

We are attempting to grow our business substantially. To this end, we have made and expect to continue to make significant investments in our business, including investments in our infrastructure, technology, and sales and marketing efforts. These investments include dedicated facilities expansion and increased staffing, both domestic and international. If our business does not generate the level of revenue required to support our investment, our net sales and profitability will be adversely affected.

If we are unable to manage our growth and expand our operations successfully, our reputation and brand may be damaged, and our business and results of operations may be harmed.

Over the past several years, we have experienced rapid growth. For example, we have grown from approximately 230 full-time employees as of January 1, 2008 to 622 full-time employees as of December 31, 2012. We have expanded internationally, including establishing manufacturing operations in Europe in 2005 and in Japan in late 2009. In 2011, we added a number of key individuals to our organization. We expect this growth to continue and the number of countries and facilities from which we operate to continue to increase in the future. Our ability to effectively manage our anticipated growth and expansion of our operations will require us to do, among other things, the following:

- enhance our operational, financial and management controls and infrastructure, human resource policies, and reporting systems and procedures, in particular as we continue our transition as a public company;
- effectively scale our operations, including accurately predicting the need for additional staffing;
- successfully identify, recruit, hire, train, maintain, motivate and integrate additional employees;
- expand our international resources; and

expand our facilities and equipment.

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These enhancements and improvements will require significant capital expenditures and allocation of valuable management and employee resources. And our growth, combined with the geographical dispersion of our operations, has placed, and will continue to place, a strain on our operational, financial and management infrastructure. Our future financial performance and our ability to execute on our business plan will depend, in part, on our ability to effectively manage any future growth and expansion. There are no guarantees we will be able to do so in an efficient or timely manner, or at all. Our failure to effectively manage growth and expansion could have a material adverse effect on our business, results of operations, financial condition, prospects, and reputation and brand, including impairing our ability to perform to our customers expectations.

We may not timely and effectively scale and adapt our existing technology, processes and infrastructure to meet the needs of our business.

A key element to our continued growth is the ability to quickly and efficiently quote an increasing number of product developer submissions across geographies and to manufacture the related parts. This will require us to timely and effectively scale and adapt our existing technology, processes and infrastructure to meet the needs of our business. With respect to our websites and quoting technology, it may become increasingly difficult to maintain and improve their performance, especially during periods of heavy usage and as our solutions become more complex and our user traffic increases across geographies. Similarly, our manufacturing automation technology may not enable us to process the large numbers of unique designs and efficiently manufacture the related parts in a timely fashion to meet the needs of product developers as our business continues to grow. Any failure in our ability to timely and effectively scale and adapt our existing technology, processes and infrastructure could negatively impact our ability to retain existing customers and attract new customers, damage our reputation and brand, result in lost revenue, and otherwise substantially harm our business and results of operations.

Numerous factors may cause us not to maintain the revenue growth that we have historically experienced.

Although our revenue has grown from $44.4 million for the year ended December 31, 2008 to $126.0 million for the year ended December 31, 2012, we likely will not be able to maintain our historical rate of revenue growth. We believe that our continued revenue growth will depend on many factors, a number of which are out of our control, including among others, our ability to:

- retain and further penetrate existing customer companies, as well as attract new customer companies;
- consistently execute on custom part orders in a manner that satisfies product developers needs and provides them with a superior experience;
- develop new technologies or manufacturing processes, and broaden the range of parts we offer;
- successfully execute on our international strategy and expand into new geographic markets;
- capitalize on product developer expectations for access to comprehensive, user-friendly e-commerce capabilities 24 hours per day/7 days per week;
- increase the strength and awareness of our brand across geographies;
- respond to changes in product developer needs, technology and our industry; and
- react to challenges from existing and new competitors.

We cannot assure you that we will be successful in continuing to grow our business and revenue, and in addressing the factors above.

Our operating results and financial condition may fluctuate on a quarterly and annual basis.

Our operating results and financial condition may fluctuate from quarter to quarter and year to year, and are likely to continue to vary due to a number of factors, some of which are outside of our control. In addition, our actual or projected operating results may fail to match our past performance. These events could in turn cause the market price of our common stock to fluctuate. If our operating results do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical operating results, the market price of our common stock will likely decline.

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Our operating results and financial condition may fluctuate due to a number of factors, including those listed below and those identified throughout this Risk Factors section:

- the development of new competitive systems or processes by others;
- the entry of new competitors into our market whether by established companies or by new companies;
- changes in the size and complexity of our organization, including our international operations;
- levels of sales of our products and services to new and existing customers;
- the geographic distribution of our sales;
- changes in product developer preferences or needs;
- changes in the amount that we invest to develop, acquire or license new technologies and processes, which we anticipate will generally increase and may fluctuate in the future;
- delays between our expenditures to develop, acquire or license new technologies and processes, and the generation of sales related thereto;
- our ability to timely and effectively scale our business during periods of sequential quarterly or annual growth;
- limitations or delays in our ability to reduce our expenses during periods of declining sequential quarterly or annual revenue;
- changes in our pricing policies or those of our competitors, including our responses to price competition;
- changes in the amount we spend in our marketing and other efforts;
- unexpected increases in expenses as compared to our related accounting accruals or operating plan;
- the volatile global economy;
- general economic and industry conditions that affect customer demand and product development trends;

interruptions to or other problems with our website and interactive user interface, information technology systems, manufacturing processes or other operations;

changes in accounting rules and tax and other laws; and

plant shutdowns due to a health pandemic or weather conditions.

Due to all of the foregoing factors and the other risks discussed in this Risk Factors section, you should not rely on quarter-to-quarter or year-to-year comparisons of our operating results as an indicator of future performance.

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Interruptions to or other problems with our website and interactive user interface, information technology systems, manufacturing processes or other operations could damage our reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability, consistency, security and availability of our websites and interactive user interface, information technology systems, manufacturing processes and other operations are critical to our reputation and brand, and our ability to effectively service product developers. Any interruptions or other problems that cause any of our websites, interactive user interface or information technology systems to malfunction or be unavailable, or negatively impact our manufacturing processes or other operations, may damage our reputation and brand, result in lost revenue, cause us to incur significant costs seeking to remedy the problem and otherwise substantially harm our business and results of operations.

A number of factors or events could cause such interruptions or problems, including among others: human and software errors, design faults, challenges associated with upgrades, changes or new facets of our business, power loss, telecommunication failures, fire, flood, extreme weather, political instability, acts of terrorism, war, break-ins and security breaches, contract disputes, labor strikes and other workforce related issues, capacity constraints due to an unusually large number of product developers accessing our websites or ordering parts at the same time, and other similar events. These risks are augmented by the fact that our customers come to us largely for our quick-turn manufacturing capabilities and that accessibility and turnaround speed are often of critical importance to these product developers. We are dependent upon our facilities through which we satisfy all of our production demands and in which we house all of the computer hardware necessary to operate our websites and systems as well as managerial, customer service, sales, marketing and other similar functions, and we have not identified alternatives to these facilities or established fully redundant systems in multiple locations. However, we have back-up computing systems for each of our United States, United Kingdom and Japanese operations. In addition, we are dependent in part on third parties for the implementation and maintenance of certain aspects of our communications and production systems, and therefore preventing, identifying and rectifying problems with these aspects of our systems is to a large extent outside of our control.

Moreover, the business interruption insurance that we carry may not be sufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, that may result from interruptions in our service as a result of system failures.

We depend on the continued growth of product developers e-commerce expectations when working with their custom parts manufacturers and their migration from 2D to 3D CAD software.

The business of selling custom parts over the Internet via an interactive web-based and automated user interface and quoting system is not widespread in our industry. Moreover, many product developers still utilize 2D CAD software. Concerns about privacy and technological and other problems may discourage some product developers from adopting the Internet as the medium for procuring their custom parts or adopting 3D CAD software, particularly in countries where e-commerce and 3D CAD software are not as prevalent as they are in our current markets or with product developers in industries not well suited to utilize our services, such as architecture. In order to expand our customer base, we must appeal to and procure customers who historically have used more traditional means of commerce and/or 2D CAD drawings to purchase their customer parts. If product developers are not sufficiently attracted to the value proposition of or satisfied with our web-based interface and quotation system, or product developers do not continue to migrate to 3D CAD software as we currently anticipate, our business could be adversely impacted.

Our business depends on the development and maintenance of the Internet infrastructure.

The success of our services will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security, as well as timely development of complementary products, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements, or problems caused by viruses, worms, malware and similar programs may harm the performance of the Internet. The backbone computers of the Internet have been the targets of such programs. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage generally as well as the level of usage of our services, which could adversely impact our business.

If the security of our customers confidential information stored in our systems is breached or otherwise subjected to unauthorized access, our reputation or brand may be harmed, and we may be exposed to liability.

Our system stores, processes and transmits our customers confidential information, including the intellectual property in their part designs, credit card information and other sensitive data. We rely on encryption, authentication and other technologies licensed from third parties, as well as administrative and physical safeguards, to secure such confidential information. Any compromise of our information security could damage our

reputation and brand and expose us to a risk of loss, costly litigation and liability that would substantially harm our business and operating results. We may not have adequately assessed the internal and external risks posed to the security of our company s systems and

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information and may not have implemented adequate preventative safeguards or take adequate reactionary measures in the event of a security incident. In addition, most states have enacted laws requiring companies to notify individuals and often state authorities of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our existing and prospective customers to lose confidence in the effectiveness of our data security measures. Any security breach, whether successful or not, would harm our reputation and brand and could cause the loss of customers.

Global economic conditions may harm our ability to do business, increase our costs and negatively affect our stock price.

The prospects for economic growth in the United States and other countries remain uncertain and could worsen. Economic concerns and other issues such as reduced access to capital for businesses may cause product developers to further delay or reduce the product development projects that our business supports. Given the continued uncertainty concerning the global economy, we face risks that may arise from financial difficulties experienced by our suppliers and product developers and other related risks to our business.

We operate a global business that exposes us to additional risks.

We have established our operations in the United States, Europe and Japan and are seeking to further expand our international operations. As of December 31, 2012, we had sold products into more than 50 countries. In addition to English, our website is available in British English, French, German, Italian, Japanese and Spanish. Our international revenue accounted for approximately 25% of our total revenue in the year ended December 31, 2012, and 26% of our total revenue in the years ended December 31, 2011 and 2010, respectively. The future growth and profitability of our international business is subject to a variety of risks and uncertainties. Many of the following factors have adversely affected our international operations and sales to customers located outside of the United States and may again in the future:

- difficulties in staffing and managing foreign operations, particularly in new geographic locations;
- challenges in providing solutions across a significant distance, in different languages and among different cultures;
- rapid changes in government, economic and political policies and conditions, political or civil unrest or instability, terrorism or epidemics, and other similar outbreaks or events;
- fluctuations in foreign currency exchange rates;
- differences in product developer preferences and means of procuring parts;
- compliance with and changes in foreign laws and regulations, as well as U.S. laws affecting the activities of U.S. companies abroad, including those associated with export controls, tariffs and embargoes, other trade restrictions and antitrust and data privacy concerns;
- different, complex and changing laws governing intellectual property rights, sometimes affording companies lesser protection in certain areas;
- lower levels of use of the Internet or 3D CAD software;
- seasonal reductions in business activity in certain parts of the world, particularly during the summer months in Europe;

higher costs of doing business internationally;

interruptions resulting from any events affecting raw material supply or manufacturing capabilities abroad;

protectionist laws and business practices that favor local producers and service providers;

taxation;

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- energy costs;
- restrictions imposed by local labor practices and laws on our business and operations;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- transportation delays; and
- increased payment risk and higher levels of payment fraud.

Our business depends on product developers demand for our services, the general economic health of current and prospective customers, and companies desire or ability to make investments in new products. A deterioration of global, regional or local political, economic or social conditions could affect potential customers in ways that reduce demand for our services, disrupt our manufacturing and sales plans and efforts or otherwise negatively impact our business. Acts of terrorism, wars, public health issues and increased energy costs could disrupt commerce in ways that could impair our ability to get products to our customers and increase our manufacturing and delivery costs. We have not undertaken hedging transactions to cover our foreign currency exposure, and changes in foreign currency exchange rates may negatively impact reported revenue and expenses. In addition, our sales are often made on unsecured credit terms, and a deterioration of political, economic or social conditions in a given country or region could reduce or eliminate our ability to collect accounts receivable in that country or region. In any of these events, our results of operations could be materially and adversely affected.

If a natural or man-made disaster strikes any of our manufacturing facilities, we will be unable to manufacture our products for a substantial amount of time and our sales will decline.

We manufacture all of our products in six manufacturing facilities, three of which are located in Maple Plain, Minnesota and one of which is located in each of Rosemount, Minnesota, Telford, United Kingdom, and Yamato-Shi, Kanagawa, Japan. These facilities and the manufacturing equipment we use would be costly to replace and could require substantial lead time to repair or replace. Our facilities may be harmed by natural or man-made disasters, including, without limitation, earthquakes, floods, tornadoes, fires, tsunamis and nuclear disasters.

In the event any of our facilities are affected by a disaster, we may:

- be unable to meet the shipping deadlines of our customers;
- experience disruptions in our ability to process submissions and generate quotations, manufacture and ship parts, provide sales and marketing support and customer service, and otherwise operate our business, any of which could negatively impact our business;
- be forced to rely on third-party manufacturers;
- need to expend significant capital and other resources to address any damage caused by the disaster; and
- lose customers and be unable to regain those customers.

Although we possess insurance for damage to our property and the disruption of our business from casualties, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

If our present single or limited source suppliers become unavailable or inadequate, our customer relationships, results of operations and financial condition may be adversely affected.

We acquire substantially all of the manufacturing equipment and certain of our materials that are critical to the ongoing operation and future growth of our business from just a few third parties. We do not have long-term supply contracts with any of our suppliers and operate on a purchase-order basis. While most manufacturing equipment and materials for our products are available from multiple suppliers, certain of those items are only available from single or limited sources. Should any of our present single or limited source suppliers for manufacturing equipment or materials

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become unavailable or inadequate, or impose terms unacceptable to us such as increased pricing terms, we could be required to spend a significant amount of time and expense to develop alternate sources of supply, and we may not be successful in doing so on terms acceptable to us, or at all. Natural disasters, such as hurricanes, may affect our supply of materials, particularly resins, from time to time, and we may purchase larger amounts of certain materials in anticipation of future shortages or increases in pricing. In addition, if we were unable to find a suitable supplier for a particular type of manufacturing equipment or material, we could be required to modify our existing business processes and offerings to accommodate the situation. As a result, the loss of a single or limited source supplier could adversely affect our relationship with our customers and our results of operations and financial condition.

We may not be able to adequately protect or enforce our intellectual property rights, which could impair our competitive position.

Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We rely primarily on patents, licenses, trademarks and trade secrets, as well as non-disclosure agreements and other methods, to protect our proprietary technologies and processes globally. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. We cannot assure you that any of our existing or future patents will not be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection. We may not be able to obtain foreign patents corresponding to our United States patents. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents and other intellectual property do not adequately protect our technology, our competitors may be able to offer services similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. Any of the foregoing events would lead to increased competition and lower revenue or gross margin, which would adversely affect our net income.

We may be subject to infringement claims.

We may be subject to intellectual property infringement claims from individuals, vendors and other companies who have acquired or developed patents in the fields of CNC machining, injection molding or part production for purposes of developing competing products or for the sole purpose of asserting claims against us. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, could cause us to incur significant costs in responding to, defending and resolving such claims, and may prohibit or otherwise impair our ability to commercialize new or existing products. If we are unable to effectively defend our processes, our market share, sales and profitability could be adversely impacted.

Our failure to expand our intellectual property portfolio could adversely affect the growth of our business and results of operations.

Expansion of our intellectual property portfolio is one of the available methods of growing our revenue and our profits. This involves a complex and costly set of activities with uncertain outcomes. Our ability to obtain patents and other intellectual property can be adversely affected by insufficient inventiveness of our employees, by changes in intellectual property laws, treaties, and regulations, and by judicial and administrative interpretations of those laws treaties and regulations. Our ability to expand our intellectual property portfolio could also be adversely affected by the lack of valuable intellectual property for sale or license at affordable prices. There is no assurance that we will be able to obtain valuable intellectual property in the jurisdictions where we and our competitors operate or that we will be able to use or license that intellectual property.

We may be subject to product liability claims, which could result in material expense, diversion of management time and attention and damage to our business and reputation and brand.

The prototype parts we manufacture and the parts we manufacture in low volumes may contain undetected defects or errors that are not discovered until after the products have been installed and used by customers. This could result in claims from customers or others, damage to our business and reputation and brand, or significant costs to correct the defect or error.

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, 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, diversion of management time and attention, damage to our business and reputation and brand, and cause us to fail to retain existing customers or to fail to attract new customers.

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Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, restrictions on imports and exports, customs, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, broadband residential Internet access and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property use and ownership, sales and other taxes, fraud, libel and personal privacy apply to the Internet and e-commerce, especially where these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. Those laws that do reference the Internet are being interpreted by the courts and their applicability and reach are therefore uncertain. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failures on our part to comply with these regulations may subject us to significant liabilities. Those current and future laws and regulations or unfavorable resolution of these issues may substantially harm our business and results of operations.

Changes in, or interpretation of, tax rules and regulations may impact our effective tax rate and future profitability.

We are a multinational company based in the United States and subject to tax in multiple tax jurisdictions, both domestic and abroad. Our future effective tax rates could be adversely affected by changes in statutory tax rates or interpretation of tax rules and regulations in jurisdictions in which we do business, changes in the amount of revenue or earnings in the countries with varying statutory tax rates, or by changes in the valuation of deferred tax assets and liabilities.

In addition, we are subject to audits and examinations of previously filed income tax returns by the Internal Revenue Service, or IRS, and other domestic and foreign tax authorities. We regularly assess the potential impact of such examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from the current examinations. We believe such estimates to be reasonable; however, there is no assurance that the final determination of any examination will not have an adverse effect on our operating results and financial position.

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to complement our growth strategy, increase market share in our current markets or expand into other markets, or broaden our technology, intellectual property or service capabilities. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be harmed.

Any acquisition, strategic relationship, joint venture or investment could disrupt our business and harm our operating results and financial condition.

Our business and our customer base have been built primarily through organic growth. However, from time to time, we may selectively pursue acquisitions, strategic relationships, joint ventures or investments that we believe may allow us to complement our growth strategy, increase market share in our current markets or expand into other markets, or broaden our technology, intellectual property or service capabilities. We cannot forecast the number, timing or size of such transactions, or the effect that any such transactions might have on our operating or financial results. We have very limited experience engaging in these types of transactions. And such transactions may be complex, time consuming and expensive, and may present numerous challenges and risks including:

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an acquired company, asset or technology not furthering our business strategy as anticipated;

difficulties entering and competing in new product or geographic markets and increased competition, including price competition;

integration challenges;

challenges in working with strategic partners and resolving any related disagreements or disputes;

overpayment for a company, asset or technology, or changes in the economic or market conditions or assumptions underlying our decision to make an acquisition;

significant problems or liabilities, including increased intellectual property and employment related litigation exposure, associated with acquired businesses, assets or technologies; and

requirements to record substantial charges and amortization expense related to certain purchased intangible assets, deferred stock compensation and other items, as well as other charges or expenses.

Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions, strategic relationships, joint ventures or investments after we have expended resources on them, as well as divert our management s attention. And any failure to successfully address these challenges or risks could disrupt our business and harm our operating results and financial condition. Moreover, any such transaction may not be viewed favorably by investors or analysts.

In addition, from time to time we may enter into negotiations for acquisitions, relationships, joint ventures or investments that are not ultimately consummated. These negotiations could result in significant diversion of management time, as well as substantial out-of-pocket costs.

We depend in part on licenses of technologies from third parties in order to deliver our solutions, and, as a result, our business is dependent in part on the availability of such licenses on commercially reasonable terms.

We currently, and will continue to, license certain technologies from third parties. While these licenses are not material to our financial results, their function in our business is integral to our operations. We cannot be certain that these third-party content licenses will be available to us on commercially reasonable terms or that we will be able to successfully integrate the technology into our solutions. These third-party in-licenses may expose us to increased risk, including risks associated with the assimilation of new technology sufficient to offset associated acquisition and maintenance costs. The inability to obtain any of these licenses could result in delays in solution development until equivalent technology can be identified and integrated. Any such delays in services could cause our business, operating results and financial condition to suffer.

Our business involves the use of hazardous materials, and we and our suppliers must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our business involves the controlled storage, use and disposal of hazardous materials. We and our suppliers are subject to federal, state and local as well as foreign laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. Although we believe that the safety procedures utilized by us and our suppliers for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, state, federal or foreign authorities may curtail the use of these materials and interrupt our business operations. We do not currently maintain hazardous materials insurance coverage. If we are subject to any liability as a result of activities involving hazardous materials, our business and financial condition may be adversely affected and our reputation and brand may be harmed.

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If we are unable to meet regulatory quality standards applicable to our manufacturing and quality processes for the parts we manufacture, our business, financial condition or operating results could be harmed.

As a manufacturer of CNC machined and injection molded custom parts, we are required to meet certain regulatory standards, including International Organization for Standardization, or ISO, 9001:2008 for our manufacturing facilities in Minnesota. If any regulatory inspection reveals that we are not in compliance with applicable standards, regulators may take action against us, including issuing a warning letter, imposing fines on us, requiring a recall of the parts we manufactured or closing our manufacturing facilities. If any of these actions were to occur, it could harm our reputation as well as our business, financial condition and operating results. In addition, we may need to obtain additional certifications in the future and there are no guarantees we would be able to do so on a timely basis, if at all. Moreover, obtaining and maintaining required regulatory certifications can be costly and divert management s attention.

We are subject to payment-related risks.

We accept payments using a variety of methods, including credit card, customer invoicing, physical bank check and payment upon delivery. As we offer new payment options to our customers, we may be subject to additional regulations, compliance requirements and fraud risk. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards or electronic checks, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

Risks Relating to Ownership of Our Common Stock

Control by our existing shareholders could allow them to collectively control substantially all matters requiring shareholder approval.

Currently, our executive officers, directors and our principal existing shareholder, North Bridge Growth Equity I, L.P. (North Bridge), beneficially own approximately 35% of our outstanding common stock. Bradley A. Cleveland, our Chief Executive Officer, and Lawrence J. Lukis, our founder and Chief Technology Officer, are each on our Board of Directors and among our largest shareholders. In addition, Matt Blodgett, one of our directors, is a Principal at North Bridge Growth Equity, which is an entity affiliated with North Bridge. These shareholders could control us through their board representation or through their ability to determine the outcome of the election of our directors, to amend our articles of incorporation and by-laws and to take other actions requiring the vote or consent of shareholders, including mergers, going private transactions and other extraordinary transactions, and the terms of any of these transactions. The ownership positions of these shareholders may have the effect of delaying, deterring or preventing a change in control or a change in the composition of our Board of Directors. These shareholders may also use their large ownership positions to address their own interests, which may be different our other investors. In addition, sales of shares beneficially owned by these shareholders could be viewed negatively by third parties and have a negative impact on our stock.

Our stock price has been and may continue to be volatile.

Shares of our common stock were sold in our February 2012 initial public offering at a price of $16.00 per share, and, as of December 31, 2012, our common stock had traded as high as $41.10 and as low as $24.90 following our initial public offering. The market for our common stock may become less active, liquid or orderly, which could depress the trading price of our common stock. Some of the factors, many of which are outside of our control, that may cause the market price of our common stock to fluctuate include:

- fluctuations in our financial condition and operating results;
- our ability to retain and attract customers and increase net sales;
- pricing pressures due to competition or otherwise and changes in gross margins;

changes in general economic and market conditions, economic uncertainty and changes in product development activity levels;

announcements by us or our competitors of technological innovations or new product or service offerings or significant acquisitions;

timing, effectiveness, and costs of expansion and upgrades of our offerings, systems and infrastructure;

changes in key personnel;

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success in entry into new markets and expansion efforts;

the public s response to press releases or other public announcements by us or third parties, including our filings with the Securities and Exchange Commission, or SEC, and announcements relating to litigation;

the projections we may provide to the public, any changes in these projections or our failure to meet these projections;

the issuance of new or updated research or reports by any securities or industry analysts who follow our common stock, changes in analysts financial estimates or ratings, and failure of securities analysts to initiate or maintain coverage of our common stock;

changes in the market valuations of similar companies;

significant lawsuits, including patent or shareholder litigation;

general economic and market conditions;

changes in laws or regulations applicable to us;

changes in accounting principles;

the sustainability of an active trading market for our common stock;

future sales of our common stock by us or our shareholders, including sales by our officers, directors and significant shareholders;

share price and volume fluctuations attributable to inconsistent trading levels of our shares;

the expiration of contractual lock-up agreements; and

other events or factors, including those resulting from war, acts of terrorism, natural disasters or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. In the past, shareholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

If securities or industry analysts publish inaccurate or unfavorable research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who covers us downgrades our common stock, changes

their opinion of our shares or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease and we could lose visibility in the financial markets, which could cause our stock price and trading volume to decline.

We are an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act (JOBS Act), which was enacted in April 2012. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote

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on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to avail ourselves of this exemption from new or revised accounting standards and, therefore, will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We are obligated to develop and maintain proper and effective internal controls over financial reporting and otherwise comply with Section 404 of the Sarbanes-Oxley Act. This will require significant expenditures and effort by our management, and may not complete our analysis of our internal controls over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act and related rules and regulations, and beginning with our Annual Report on Form 10-K for the year ending December 31, 2013, our management will be required to report on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting beginning with our Annual Report on Form 10-K following the date on which we are no longer an emerging growth company, which may be up to five years following the date of our initial public offering, but could occur as early as our fiscal year ending December 31, 2013. Our status as an emerging growth company is discussed in more detail in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation. We are currently in the very early stages of the costly and challenging process of reviewing, documenting and testing our internal control over financial reporting. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. We may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In addition, in connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an unqualified opinion on the effectiveness of our internal controls, investors could lose confidence in the accuracy and completeness of our financial information and our stock price could decline.

Anti-takeover provisions in our charter documents and Minnesota law might discourage or delay acquisition attempts for us that you might consider favorable.

Our third amended and restated articles of incorporation and amended and restated by-laws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. These provisions:

- permit our board of directors to issue up to 10,000,000 shares of preferred stock, with any rights, preferences and privileges as our board may designate, including the right to approve an acquisition or other change in our control;
- provide that the authorized number of directors may be changed by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that shareholders seeking to present proposals before a meeting of shareholders or to nominate candidates for election as directors at a meeting of shareholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a shareholder s notice; and

do not provide for cumulative voting rights.

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We are subject to the provisions of Section 302A.673 of the Minnesota Statutes, which regulates business combinations. Section 302A.673 generally prohibits any business combination by an issuing public corporation, or any of its subsidiaries, with an interested shareholder, which means any shareholder that purchases 10% or more of the corporation s voting shares within four years following the date the person became an interested shareholder, unless the business combination is approved by a committee composed solely of one or more disinterested members of the corporation s board of directors before the date the person became an interested shareholder.

These anti-takeover provisions could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our shareholders. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

We do not expect to pay any cash dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock, and we do not anticipate that we will pay any such cash dividends for the foreseeable future. We anticipate that we will retain all of our future earnings for use in the business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares in this offering, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

United States

Our corporate headquarters are located in Maple Plain, Minnesota in a facility we own encompassing approximately 95,000 square feet of office and manufacturing space. We also own a nearby facility encompassing approximately 35,000 square feet of manufacturing space. We lease an additional facility on a property adjacent to our headquarters that encompasses approximately 40,000 square feet of manufacturing space. The lease for this facility expires in 2017, subject to our option to renew for up to two additional five-year terms. We also own a facility in Rosemount, Minnesota that encompasses approximately 130,000 square feet of manufacturing and office space.

Europe

Our European operations are headquartered in Telford, United Kingdom in a leased facility encompassing approximately 135,000 square feet of office and manufacturing space. The lease for this facility expires in 2016.

We also lease office space in Mosbach, Germany and Chambery, France for sales and customer service and technical support staff. We expect that the existing European production facilities will provide sufficient space for our European operations for the foreseeable future.

Japan

Our Japan operations are headquartered in Yamato-Shi, Kanagawa, Japan (southwest of Tokyo) in a leased facility encompassing approximately 30,000 square feet of office and manufacturing space. The lease expires in November 2021 and has a cancellation clause with six months prior notice without penalty. We believe that this facility will provide sufficient space for our Japan operations for the foreseeable future.

Item 3. Legal Proceedings

From time to time, we are subject to various legal proceedings and claims that arise in the ordinary course of our business activities. Although the results of litigation and claims cannot be predicted with certainty, as of the date of this Annual Report on Form 10-K, we do not believe we are party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business.

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Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has traded on the New York Stock Exchange (NYSE) under the symbol PRLB since February 24, 2012. Our initial public offering was priced at $16.00 per share. Prior to that date, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high and low intraday sales prices for our common stock as reported on the NYSE:

	High	Low
Fiscal 2012		
First quarter (from February 24, 2012)	$ 35.93	$ 25.00
Second Quarter	$ 39.08	$ 24.90
Third Quarter	$ 41.10	$ 28.76
Fourth Quarter	$ 39.80	$ 27.96

On March 8, 2013, the last reported sale price of our common stock on the NYSE was $48.23 per share. As of March 8, 2013, we had 16 holders of record of our common stock. The actual number of shareholders is greater than this number of record holders, and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. In addition, unless waived, the terms of our existing debt facilities prohibit us from paying dividends on our common stock.

Performance Graph

The following graph shows a comparison from February 24, 2012 (the date our common stock commenced trading on the NYSE) through December 31, 2012 of the cumulative total return for our common stock, the S&P 500 Index and the Russell 2000 Index. We have selected the Russell 2000 Index because the Russell 2000 Index measures the performance of the small market capitalization segment of U.S. equity instruments and we are a member company included in the Russell 2000 Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the S&P 500 Index and the Russell 2000 Index assume reinvestment of dividends.

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	Period Ending											
Index	02/23/12	02/29/12	03/31/12	04/30/12	05/31/12	06/30/12	07/31/12	08/31/12	09/30/12	10/31/12	11/30/12	12/31/12
Proto Labs, Inc.	100.00	192.19	213.06	231.88	230.56							