

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2024

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

(State or other jurisdiction of incorporation or organization)

41-1939628

(I.R.S. Employer Identification No.)

5540 Pioneer Creek Drive

Maple Plain, Minnesota

(Address of principal executive offices)

55359

(Zip Code)

(763) 479-3680

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.001 Per Share	PRLB	New York Stock Exchange

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>		
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 25,147,616 shares of Common Stock, par value \$0.001 per share, were outstanding at July 30, 2024.

Proto Labs, Inc.
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Proto Labs, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	June 30, 2024	December 31, 2023
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 96,149	\$ 83,790
Short-term marketable securities	16,792	19,013
Accounts receivable, net of allowance for doubtful accounts of \$2,610 and \$2,499 as of June 30, 2024, and December 31, 2023, respectively	70,891	72,848
Inventory	12,357	13,657
Income taxes receivable	1,400	2,228
Prepaid expenses and other current assets	10,034	9,124
Total current assets	207,623	200,660
Property and equipment, net	243,710	253,655
Goodwill	273,991	273,991
Other intangible assets, net	23,427	25,584
Long-term marketable securities	—	8,019
Operating lease assets	3,790	4,628
Finance lease assets	826	960
Other long-term assets	4,839	4,856
Total assets	\$ 758,206	\$ 772,353
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 15,910	\$ 15,636
Accrued compensation	15,544	15,292
Accrued liabilities and other	17,656	16,872
Current operating lease liabilities	1,534	1,585
Current finance lease liabilities	302	296
Total current liabilities	50,946	49,681
Long-term operating lease liabilities	2,203	3,008
Long-term finance lease liabilities	443	595
Long-term deferred tax liabilities	14,588	18,742
Other long-term liabilities	4,790	5,032
Total liabilities	72,970	77,058
Shareholders' equity		
Preferred stock, \$0.001 par value, authorized 10,000,000 shares; issued and outstanding 0 shares as of each of June 30, 2024, and December 31, 2023	—	—
Common stock, \$0.001 par value, authorized 150,000,000 shares; issued and outstanding 25,147,616 and 25,721,957 shares as of June 30, 2024, and December 31, 2023, respectively	26	26
Additional paid-in capital	461,400	466,884
Retained earnings	253,242	256,398
Accumulated other comprehensive loss	(29,432)	(28,013)
Total shareholders' equity	685,236	695,295
Total liabilities and shareholders' equity	\$ 758,206	\$ 772,353

The accompanying notes are an integral part of these consolidated financial statements.

Proto Labs, Inc.
Consolidated Statements of Comprehensive Income
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Statements of Operations:				
Revenue	\$ 125,631	\$ 122,265	\$ 253,521	\$ 248,124
Cost of revenue	69,085	69,142	139,508	141,225
Gross profit	56,546	53,123	114,013	106,899
Operating expenses				
Marketing and sales	23,291	21,730	46,451	44,181
Research and development	10,661	9,865	21,828	20,542
General and administrative	16,595	15,822	32,908	32,655
Closure of Japan business	—	98	—	164
Total operating expenses	50,547	47,515	101,187	97,542
Income from operations	5,999	5,608	12,826	9,357
Other income (loss), net	1,361	(3,368)	2,260	(2,078)
Income before income taxes	7,360	2,240	15,086	7,279
Provision for income taxes	2,820	2,623	5,278	5,003
Net income (loss)	\$ 4,540	\$ (383)	\$ 9,808	\$ 2,276
Net income (loss) per share:				
Basic	\$ 0.18	\$ (0.01)	\$ 0.39	\$ 0.09
Diluted	\$ 0.18	\$ (0.01)	\$ 0.38	\$ 0.09
Shares used to compute net income (loss) per share:				
Basic	25,313,036	26,210,478	25,473,937	26,414,467
Diluted	25,372,972	26,210,478	25,573,344	26,445,427
Comprehensive Income (net of tax)				
Comprehensive income	\$ 3,953	\$ 3,890	\$ 8,389	\$ 7,410

The accompanying notes are an integral part of these consolidated financial statements.

Proto Labs, Inc.
Consolidated Statements of Shareholders' Equity
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2023	25,721,957	26	466,884	256,398	(28,013)	695,295
Common shares issued on exercise of options and other, net of shares withheld for tax obligations	29,974	—	(533)	—	—	(533)
Stock-based compensation expense	—	—	4,276	—	—	4,276
Repurchases of common stock and other	(435,861)	—	(7,912)	(8,252)	—	(16,164)
Net income	—	—	—	5,268	—	5,268
<i>Other comprehensive income</i>						
Foreign currency translation adjustment	—	—	—	—	(925)	(925)
Net unrealized gains (losses) on investments in securities	—	—	—	—	93	93
Comprehensive income						4,436
Balance at March 31, 2024	25,316,070	\$ 26	\$ 462,715	\$ 253,414	\$ (28,845)	\$ 687,310
Common shares issued on exercise of options and other, net of shares withheld for tax obligations	176,780	—	707	—	—	707
Stock-based compensation expense	—	—	4,244	—	—	4,244
Repurchases of common stock and other	(345,234)	—	(6,266)	(4,712)	—	(10,978)
Net income	—	—	—	4,540	—	4,540
<i>Other comprehensive income</i>						
Foreign currency translation adjustment	—	—	—	—	(678)	(678)
Net unrealized gains (losses) on investments in securities	—	—	—	—	91	91
Comprehensive income						3,953
Balance at June 30, 2024	25,147,616	\$ 26	\$ 461,400	\$ 253,242	\$ (29,432)	\$ 685,236

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2022	26,888,425	27	473,740	258,236	(34,355)	697,648
Common shares issued on exercise of options and other, net of shares withheld for tax obligations	26,798	—	(401)	—	—	(401)
Stock-based compensation expense	—	—	3,695	—	—	3,695
Repurchases of common stock	(712,500)	(1)	(11,849)	(9,475)	—	(21,325)
Net income	—	—	—	2,659	—	2,659
<i>Other comprehensive income</i>						
Foreign currency translation adjustment	—	—	—	—	527	527
Net unrealized gains (losses) on investments in securities	—	—	—	—	334	334
Comprehensive income						3,520
Balance at March 31, 2023	26,202,723	\$ 26	\$ 465,185	\$ 251,420	\$ (33,494)	\$ 683,137
Common shares issued on exercise of options and other, net of shares withheld for tax obligations	169,229	—	962	—	—	962
Stock-based compensation expense	—	—	3,675	—	—	3,675
Repurchases of common stock	(276,518)	—	(4,872)	(4,107)	—	(8,979)
Net loss	—	—	—	(383)	—	(383)
<i>Other comprehensive income</i>						
Foreign currency translation adjustment	—	—	—	—	4,254	4,254
Net unrealized gains (losses) on investments in securities	—	—	—	—	19	19
Comprehensive income						3,890
Balance at June 30, 2023	26,095,434	\$ 26	\$ 464,950	\$ 246,930	\$ (29,221)	\$ 682,685

The accompanying notes are an integral part of these consolidated financial statements.

Proto Labs, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Operating activities		
Net income	\$ 9,808	\$ 2,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,075	18,883
Stock-based compensation expense	8,520	7,370
Deferred taxes	(4,144)	(5,605)
Interest on finance lease obligations	18	568
Loss on foreign currency translation	—	3,906
Gain on disposal of property and equipment	(20)	(428)
Other	64	215
Changes in operating assets and liabilities:		
Accounts receivable	113	1,106
Inventories	1,263	(551)
Prepaid expenses and other	(829)	4,193
Income taxes	825	3,524
Accounts payable	537	(961)
Accrued liabilities and other	1,551	(2,629)
Net cash provided by operating activities	<u>35,781</u>	<u>31,867</u>
Investing activities		
Purchases of property, equipment and other capital assets	(6,784)	(6,829)
Proceeds from sales of property, equipment and other capital assets	30	623
Proceeds from call redemptions and maturities of marketable securities	10,419	14,020
Net cash provided by investing activities	<u>3,665</u>	<u>7,814</u>
Financing activities		
Proceeds from exercises of stock options	2,094	1,986
Purchases of shares withheld for tax obligations	(1,920)	(1,425)
Repurchases of common stock	(26,940)	(30,064)
Principal repayments of finance lease obligations	(146)	(163)
Net cash used in financing activities	<u>(26,912)</u>	<u>(29,666)</u>
Effect of exchange rate changes on cash and cash equivalents	(175)	(80)
Net increase in cash and cash equivalents	<u>12,359</u>	<u>9,935</u>
Cash and cash equivalents, beginning of period	83,790	56,558
Cash and cash equivalents, end of period	<u>\$ 96,149</u>	<u>\$ 66,493</u>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

The unaudited interim Consolidated Financial Statements of Proto Labs, Inc. (Protolabs, the Company, we, us or our) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying financial statements reflect all adjustments necessary for a fair presentation of the Company's statements of financial position, results of operations and cash flows for the periods presented. Except as otherwise disclosed herein, these adjustments consist of normal, recurring items. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Actual results could materially differ from these estimates. For further information, refer to the audited Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission (SEC) on February 16, 2024.

The accompanying Consolidated Balance Sheet as of December 31, 2023 was derived from the audited Consolidated Financial Statements but does not include all disclosures required by U.S. GAAP for a full set of financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Consolidated Financial Statements and Notes included in the Company's Annual Report on Form 10-K filed on February 16, 2024 as referenced above.

Note 2 – Recent Accounting Pronouncements

The Company did not recently adopt any accounting pronouncements that had a material impact on the Company's Consolidated Financial Statements.

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, that enhances the transparency of income tax disclosures by expanding annual disclosure requirements related to the rate reconciliation and income taxes paid. The Company is required to adopt this guidance for its annual year ending December 31, 2025. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its disclosures.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, that updates reportable segment disclosure requirements primarily through enhanced disclosures about significant expenses and information used to assess segment performance on an annual and interim basis. The Company is required to adopt this guidance for its annual year ending December 31, 2024 and all interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its disclosures.

Note 3 – Net Income (Loss) per Common Share

Basic net income (loss) per share is computed based on the weighted-average number of common shares outstanding. Diluted net income (loss) per share is computed based on the weighted-average number of common shares outstanding, increased by the number of additional shares that would have been outstanding had potentially dilutive common shares been issued and reduced by the number of shares the Company could have repurchased from the proceeds from issuance of the potentially dilutive shares. Potentially dilutive shares of common stock include stock options and other stock-based awards granted under stock-based compensation plans and shares committed to be purchased under the employee stock purchase plan. Performance stock units are excluded from the calculation of dilutive potential common shares until the performance conditions have been satisfied. Anti-dilutive options were excluded from the calculation of diluted weighted average shares outstanding and were 452,239 and 380,848 for the three months ended June 30, 2024 and 2023, respectively, and 371,313 and 407,119 for the six months ended June 30, 2024 and 2023, respectively.

The table below sets forth the computation of basic and diluted net income (loss) per share:

(in thousands, except share and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 4,540	\$ (383)	\$ 9,808	\$ 2,276
Basic - weighted-average shares outstanding:	25,313,036	26,210,478	25,473,937	26,414,467
Effect of dilutive securities:				
Employee stock options and other ¹	59,936	0	99,407	30,960
Diluted - weighted-average shares outstanding:	25,372,972	26,210,478	25,573,344	26,445,427
Net income (loss) per share:				
Basic	\$ 0.18	\$ (0.01)	\$ 0.39	\$ 0.09
Diluted	\$ 0.18	\$ (0.01)	\$ 0.38	\$ 0.09

¹ For the three months ended June 30, 2023, 14,084 of dilutive securities for employee stock options and other were not included in the diluted weighted average shares outstanding due to the net loss for the three months ended June 30, 2023.

Note 4 – Goodwill and Other Intangible Assets

There were no changes in the carrying amount of goodwill during the three and six months ended June 30, 2024.

Intangible assets other than goodwill at June 30, 2024 and December 31, 2023 were as follows:

(in thousands)	June 30, 2024			December 31, 2023			Useful Life (in years)	Weighted Average Useful Life Remaining (in years)
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net		
Intangible assets with finite lives:								
Marketing assets	\$ 930	\$ (930)	\$ —	\$ 930	\$ (900)	\$ 30	10.0	0.0
Non-compete agreement	827	(653)	174	835	(603)	232	2.0 - 5.0	1.1
Software technology	13,229	(8,439)	4,790	13,229	(7,752)	5,477	10.0	3.5
Software platform	26,026	(7,563)	18,463	26,373	(6,575)	19,798	12.0	8.6
Tradenames	349	(349)	—	354	(347)	7	3.0	0.0
Customer relationships	12,195	(12,195)	—	12,223	(12,183)	40	3.0 - 9.0	0.0
Total intangible assets	\$ 53,556	\$ (30,129)	\$ 23,427	\$ 53,944	\$ (28,360)	\$ 25,584		

Intangible assets allocated to the Protolabs Network entities consisted of intangible assets of €11.6 million in Europe and \$16.6 million in the United States as of the date of the acquisition. The Euro denominated intangible assets are translated at the end of each period using the current exchange rates resulting in a foreign currency translation adjustment that is recorded as a component of Other Comprehensive Income. Foreign currency unrealized losses related to intangible assets were \$1.7 million and \$1.3 million as of June 30, 2024 and December 31, 2023, respectively. Amortization expense for intangible assets was \$0.9 million and \$1.5 million for each of the three months ended June 30, 2024 and 2023, respectively, and \$1.9 million and \$3.1 million for each of the six months ended June 30, 2024 and 2023, respectively.

Estimated aggregated amortization expense based on the current carrying value of the amortizable intangible assets and current exchange rates is as follows:

(in thousands)	Estimated Amortization Expense
Remaining 2024	\$ 1,815
2025	3,630
2026	3,529
2027	3,520
2028	2,151
Thereafter	8,782
Total estimated amortization expense	\$ 23,427

Note 5 – Fair Value Measurements

Accounting Standards Codification, *Fair Value Measurement* (ASC 820), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires classification based on observable and unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are *not* active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's assets and liabilities that are required to be measured or disclosed at fair value on a recurring basis include cash and cash equivalents and marketable securities. The Company's cash consists of bank deposits and cash equivalents consist primarily of money market mutual funds. The Company determines the fair value of these investments using Level 1 inputs. The Company's marketable securities consist of short-term and long-term agency, municipal, corporate and other debt securities. Fair value for the corporate debt securities is primarily determined based on quoted market prices (Level 1). Fair values for the U.S. municipal securities, U.S. government agency securities, certificates of deposit and U.S. treasury securities are primarily determined using dealer quotes or quoted market prices for similar securities (Level 2).

The following table summarizes financial assets as of June 30, 2024 and December 31, 2023 measured at fair value on a recurring basis:

(in thousands)	June 30, 2024			December 31, 2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets:						
Cash	\$ 94,871	\$ —	\$ —	\$ 77,423	\$ —	\$ —
Money market mutual fund	1,278	—	—	6,367	—	—
Marketable securities	2,465	14,327	—	4,482	22,550	—
Total	\$ 98,614	\$ 14,327	\$ —	\$ 88,272	\$ 22,550	\$ —

Note 6 – Marketable Securities

The Company invests in short-term and long-term agency, municipal, corporate and other debt securities. The securities are categorized as available-for-sale and are recorded at fair value. The following table summarizes information regarding the Company’s short-term and long-term marketable securities as of June 30, 2024 and December 31, 2023:

(in thousands)	June 30, 2024			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities	\$ 13,310	\$ —	\$ (178)	\$ 13,132
U.S. municipal securities	3,699	—	(39)	3,660
Total marketable securities	\$ 17,009	\$ —	\$ (217)	\$ 16,792

(in thousands)	December 31, 2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities	\$ 16,798	\$ —	\$ (278)	\$ 16,520
Corporate debt securities	2,511	—	(19)	2,492
U.S. municipal securities	7,876	—	(105)	7,771
Certificates of deposit/time deposits	249	—	—	249
Total marketable securities	\$ 27,434	\$ —	\$ (402)	\$ 27,032

Fair values for the corporate debt securities are primarily determined based on quoted market prices (Level 1). Fair values for the U.S. municipal securities, U.S. government agency securities, certificates of deposit and U.S. treasury securities are primarily determined using dealer quotes or quoted market prices for similar securities (Level 2).

Classification of marketable securities as current or non-current is based upon the security’s maturity date as of the date of these financial statements.

The June 30, 2024 balance of available-for-sale debt securities by contractual maturity is shown in the following table at fair value. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(in thousands)	June 30, 2024
Due in one year or less	\$ 16,792
Due after one year through five years	—
Total marketable securities	\$ 16,792

Note 7 – Inventory

Inventory consists primarily of raw materials, which are recorded at the lower of cost and net realizable value using the standard cost method, which approximates first-in, first-out (FIFO) cost. The Company periodically reviews its inventory for slow-moving, damaged and discontinued items and provides allowances to reduce such items identified to their recoverable amounts.

The Company's inventory consisted of the following as of the dates indicated:

(in thousands)	June 30, 2024	December 31, 2023
Total inventory	\$ 13,042	\$ 14,319
Allowance for obsolescence	(685)	(662)
Inventory, net of allowance	\$ 12,357	\$ 13,657

Note 8 – Stock-Based Compensation

Under the Amended and Restated Proto Labs Inc. 2022 Long-Term Incentive Plan, the Company has the ability to grant stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, other stock-based awards and cash incentive awards, which was approved by the Company's shareholders at a Special Meeting of Shareholders on August 29, 2022 and was amended and restated by the Company's shareholders at its Annual Meeting of Shareholders on May 23, 2024 (as amended and restated, the 2022 Plan) to increase the number of shares available for issuance pursuant to awards under the 2022 Plan by an additional 430,000 shares, add a minimum vesting requirement, and extend the expiration date so that the term of the 2022 Plan runs for ten years from the date of the shareholder approval. Awards under the 2022 Plan have a maximum term of ten years from the date of grant. The compensation committee may provide that the vesting or payment of any award will be subject to the attainment of specified performance measures in addition to the satisfaction of any continued service requirements and the compensation committee will determine whether such measures have been achieved. The per-share exercise price of stock options and SARs granted under the 2022 Plan generally may not be less than the fair market value of a share of our common stock on the date of the grant.

The Company also has outstanding awards under the 2012 Long-Term Incentive Plan, as amended (the 2012 Plan), although the plan expired in February 2022 and no additional awards have since been or will be made under the 2012 Plan. The 2012 Plan provided the Company the ability to grant stock options, SARs, restricted stock, restricted stock units, other stock-based awards and cash incentive awards. Awards under the 2012 Plan that subsequently expired, were forfeited or cancelled, or settled in cash after August 29, 2022 became available for awards under the 2022 Plan.

Employee Stock Purchase Plan

The Company's 2012 Employee Stock Purchase Plan (ESPP) allows eligible employees to purchase a variable number of shares of the Company's common stock each offering period at a discount through payroll deductions of up to 15 percent of their eligible compensation, subject to plan limitations. The ESPP provides for six-month offering periods with a single purchase period ending May 15 and November 15, respectively. At the end of each offering period, employees are able to purchase shares at 85 percent of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the offering period.

Stock-Based Compensation Expense

Stock-based compensation expense was \$4.2 million and \$3.7 million for the three months ended June 30, 2024 and 2023, respectively, and \$8.5 million and \$7.4 million for the six months ended June 30, 2024 and 2023, respectively.

Stock Options

The following table summarizes stock option activity during the six months ended June 30, 2024:

	Stock Options	Weighted-Average Exercise Price
Options outstanding at December 31, 2023	371,313	\$ 59.92
Granted	139,215	33.41
Exercised	—	—
Forfeited	(29,729)	76.23
Expired	(5,094)	67.78
Options outstanding at June 30, 2024	<u>475,705</u>	\$ 51.06
Exercisable at June 30, 2024	<u>190,014</u>	\$ 70.24

The outstanding options generally have a term of ten years. For employees, options granted become exercisable ratably over the vesting period, which is generally a period of four years, beginning on the first anniversary of the grant date, subject to the employee's continuing service to the Company.

The weighted-average grant date fair value of options that were granted during the six months ended June 30, 2024 was \$18.15.

The following table provides the assumptions used in the Black-Scholes pricing model valuation of options during the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Risk-free interest rate	4.28% - 4.30%	3.90% - 4.55%
Expected life (years)	6.25	2.00 - 6.25
Expected volatility	50.62% - 50.72%	49.23% - 55.92%
Expected dividend yield	0%	0%

As of June 30, 2024, there was \$5.0 million of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.9 years.

Restricted Stock

Restricted stock awards are share-settled awards and restrictions lapse ratably over the vesting period, which is generally a period from three to four years, beginning on the first anniversary of the grant date, subject to the employee's continuing service to the Company. For the board of directors, restrictions generally lapse in full on the first anniversary of the grant date.

The following table summarizes restricted stock activity during the six months ended June 30, 2024:

	Restricted Stock	Weighted- Average Grant Date Fair Value Per Share
Restricted stock at December 31, 2023	653,465	\$ 45.89
Granted	336,785	33.02
Restrictions lapsed	(191,950)	54.48
Forfeited	(26,289)	42.36
Restricted stock at June 30, 2024	<u>772,011</u>	<u>\$ 38.26</u>

As of June 30, 2024, there was \$23.4 million of unrecognized compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted-average period of 2.9 years.

Performance Stock

Performance stock units (PSUs) are expressed in terms of a target number of PSUs, with anywhere between 0 percent and 200 percent of that target number capable of being earned and vesting at the end of a three-year performance period depending on the Company's performance in the final year of the performance period and the award recipient's continued employment. Certain PSUs granted by the Company in 2021 are based on performance conditions and the related compensation cost is based on the probability that the performance conditions will be achieved. The Company's PSUs granted in 2022, 2023, 2024 and certain PSUs granted in 2021 are based on market conditions and the related compensation cost is based on the fair value at grant date calculated using a Monte Carlo pricing model.

The following table summarizes performance stock activity during the six months ended June 30, 2024:

	Performance Stock	Weighted- Average Grant Date Fair Value Per Share
Performance stock at December 31, 2023	107,097	\$ 74.08
Granted	79,436	48.20
Restrictions lapsed	—	—
Performance change	(2,772)	227.14
Forfeited	—	—
Performance stock at June 30, 2024	<u>183,761</u>	<u>\$ 60.58</u>

The following table provides the assumptions used in the Monte Carlo pricing model valuation of PSUs during the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Risk-free interest rate	4.37%	4.35%
Expected life (years)	2.88	2.88
Expected volatility	51.40%	58.00%
Expected dividend yield	0%	0%

As of June 30, 2024, there was \$6.2 million of unrecognized compensation expense related to non-vested performance stock, which is expected to be recognized over a weighted-average period of 2.1 years.

Employee Stock Purchase Plan

The following table presents the assumptions used to estimate the fair value of the ESPP during the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
Risk-free interest rate	5.07% - 5.16%	4.60% - 4.82%
Expected life (months)	6.00	6.00
Expected volatility	30.97% - 47.92%	47.38% - 67.84%
Expected dividend yield	0%	0%

Note 9 – Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of foreign currency translation adjustments and net unrealized gains (losses) on investments in securities.

The following table presents the changes in accumulated other comprehensive income (loss) balances during the three and six months ended June 30, 2024 and 2023:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Balance at beginning of period	\$ (28,845)	\$ (33,494)	\$ (28,013)	\$ (34,355)
<i>Foreign currency translation adjustments</i>				
Other comprehensive (loss) income before reclassifications	(678)	348	(1,603)	875
Amounts reclassified from accumulated other comprehensive loss	—	3,906	—	3,906
Net current-period other comprehensive (loss) income	(678)	4,254	(1,603)	4,781
<i>Net unrealized gains (losses) on investments in securities</i>				
Other comprehensive income (loss) before reclassifications	91	19	184	353
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current-period other comprehensive income (loss)	91	19	184	353
Balance at end of period	\$ (29,432)	\$ (29,221)	\$ (29,432)	\$ (29,221)

Note 10 – Income Taxes

The Company is subject to income tax in multiple jurisdictions and the use of estimates is required to determine the provision for income taxes. For the three months ended June 30, 2024 and 2023, the Company recorded an income tax provision of \$2.8 million and \$2.6 million, respectively. For the six months ended June 30, 2024 and 2023, the Company recorded an income tax provision of \$5.3 million and \$5.0 million, respectively. The income tax provision is based on the estimated annual effective tax rate for the year applied to pre-tax income. The effective income tax rate for the three months ended June 30, 2024 was 38.3 percent compared to 117.1 percent in the same period of the prior year. The effective tax rate decreased by 78.8 percent for the three months ended June 30, 2024 when compared to the same period in 2023, primarily due to the prior year one-time tax impact of the foreign currency translation loss from the closure of our Japan business. The effective income tax rate for the six months ended June 30, 2024 was 35.0 percent compared to 68.7 percent in the same period of the prior year. The effective tax rate decreased by 33.7 percent for the six months ended June 30, 2024 when compared to the same period in 2023, primarily due to the prior year one-time tax impact of the foreign currency translation loss from the closure of our Japan business.

The effective income tax rate for the three and six months ended June 30, 2024 differs from the U.S. federal statutory rate of 21.0 percent due to various factors, including operating in multiple state and foreign jurisdictions partially offset by tax credits for which the Company qualifies.

The Company had unrecognized tax benefits totaling \$3.6 million as of June 30, 2024 and \$3.6 million as of December 31, 2023, respectively, that if recognized would result in a reduction of the Company's effective tax rate. The liabilities are classified as other long-term liabilities in the accompanying consolidated balance sheets. The Company recognizes interest and penalties related to income tax matters in income tax expense and reports the liability in current or long-term income taxes payable as appropriate.

Note 11 – Segment Reporting

The Company's reportable segments are based on the internal reporting used by the Company's Chief Executive Officer, who is the chief operating decision maker (CODM), to assess operating performance and make decisions about the allocation of resources. The Corporate Unallocated and Japan category includes non-reportable segments, as well as research and development and general and administrative costs, that the Company does not allocate directly to its operating segments.

Intercompany transactions primarily relate to intercontinental activity and have been eliminated and are excluded from the reported amounts. The difference between income from operations and pre-tax income relates to foreign currency-related gains and losses and interest income on cash balances and investments, which are not allocated to business segments.

Revenue and income from operations by reportable segment for the three and six months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
United States	\$ 98,541	\$ 96,321	\$ 200,022	\$ 194,067
Europe	27,090	25,944	53,499	54,057
Total revenue	\$ 125,631	\$ 122,265	\$ 253,521	\$ 248,124

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Income (Loss) from Operations:				
United States	\$ 24,241	\$ 22,053	\$ 50,573	\$ 42,534
Europe	(1,732)	(3,380)	(4,176)	(5,863)
Corporate Unallocated and Japan	(16,510)	(13,065)	(33,571)	(27,314)
Total Income from Operations	\$ 5,999	\$ 5,608	\$ 12,826	\$ 9,357

Total long-lived assets at June 30, 2024 and December 31, 2023 were as follows:

(in thousands)	June 30, 2024	December 31, 2023
	Total long-lived assets:	
United States	\$ 192,873	\$ 201,388
Europe	50,837	52,267
Total Long-lived Assets	\$ 243,710	\$ 253,655

Revenue by product line for the three and six months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
Injection Molding	\$ 49,080	\$ 48,819	\$ 101,743	\$ 100,767
CNC Machining	51,239	48,297	101,171	96,401
3D Printing	21,281	21,005	42,863	42,330
Sheet Metal	3,922	3,939	7,475	8,187
Other Revenue	109	205	269	439
Total Revenue	<u>\$ 125,631</u>	<u>\$ 122,265</u>	<u>\$ 253,521</u>	<u>\$ 248,124</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2023.

Forward-Looking Statements

Statements contained in this report 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,” “predict,” “project,” “potential,” “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 that may cause our results to be materially different than those expressed or implied in such statements. Certain of these risk factors and others are described in Item 1A. “Risk Factors” of this Form 10-Q, as well as our most recent Annual Report on Form 10-K as filed 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.

Overview

We are one of the world’s largest, fastest and most comprehensive digital manufacturers of custom parts. Our vision is accelerating innovation by revolutionizing manufacturing. Our mission is to empower companies to bring new ideas to market by offering the fastest and most comprehensive digital manufacturing service in the world. We accomplish this by offering a variety of manufacturing capabilities fulfilled through a combination of owned manufacturing factories and a worldwide network of premium manufacturing partners. Our automated quoting and manufacturing systems are highly integrated with our manufacturing and fulfillment systems, which allow us to offer a vast array of manufacturing technologies in a variety of materials across a continuum of lead times and prices. Our technology-enabled digital engineering and manufacturing applications enable us to produce commercial-grade plastic, metal, and liquid silicone rubber parts in as fast as one day. We utilize injection molding, computer numerical control (CNC) machining, 3D printing and sheet metal fabrication to manufacture custom parts for our customers.

Our customers conduct nearly all of their business with us over the Internet. We target our products to the millions of product developers and engineers who use three-dimensional computer-aided design (3D CAD) software to design products across a diverse range of end-markets, to the procurement and supply chain professionals seeking to easily and efficiently source custom parts, and to a wide variety of customers seeking to purchase custom made parts. We believe our use of advanced technology enables us to offer significant advantages at competitive prices to many customers and is the primary reason we have become a leading supplier of custom parts.

We have established our operations in the United States and Europe. Our primary manufacturing product lines currently include Injection Molding, CNC Machining, 3D Printing and Sheet Metal. We continually seek to expand the range of sizes 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 or incorporate into our manufacturing network in order to better serve the evolving preferences and needs of our customers. With the addition of the Protolabs Network in 2021, our global network of premium manufacturing partners significantly expands the breadth and depth of our manufacturing capabilities, enabling us to offer customers a wider variety of lead times and pricing options, and an expanded envelope of parts (complexity, size, etc.).

Key Financial Measures and Trends

Revenue

Our operations are comprised of two geographic operating segments in the United States and Europe. On May 27, 2022, the Company's board of directors approved a plan for the closure of our manufacturing facility in Japan and announced an intention to cease operations in the region. The Company dissolved its Japan operations in December 2023. Revenue is derived from our Injection Molding, CNC Machining, 3D Printing and Sheet Metal product lines. Injection Molding revenue consists of sales of custom injection molds and injection-molded parts. CNC Machining revenue consists of sales of CNC-machined custom parts. 3D Printing revenue consists of sales of 3D-printed parts. Sheet Metal revenue consists of

sales of fabricated sheet metal custom parts. Our revenue is generated from a diverse customer base and our historical and current efforts to increase revenue have been directed at gaining new customers and selling to our existing customer base by increasing marketing and selling activities, including:

- expanding the breadth and scope of our products by adding more sizes and materials to our offerings;
- the introduction of our 3D Printing product line through our acquisition of FineLine in 2014;
- expanding 3D Printing to Europe through our acquisition of Alphaform in 2015;
- the introduction of our Sheet Metal product line through our acquisition of Rapid Manufacturing Group, LLC in 2017;
- continuously improving the usability of our product lines such as our web-centric applications; and
- providing customers with on-demand access to a global network of premium manufacturing partners through our acquisition of Hubs in 2021.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenue consists primarily of raw materials, equipment depreciation, employee compensation including benefits and stock-based compensation, facilities costs and overhead allocations associated with the manufacturing process for molds and customer parts. We expect our personnel-related costs to increase in order to retain and attract top talent and remain competitive in the market. Overall, we expect cost of revenue to increase in absolute dollars.

We define gross profit as our revenue less our cost of revenue, and we define gross margin as gross profit expressed as a percentage of revenue. Our gross profit and gross margin are affected by many factors, including our mix of revenue by product line, pricing, sales volume, manufacturing costs, the costs associated with increasing production capacity, the mix between domestic and foreign revenue sources, the mix between revenue produced in our internal manufacturing operations and outsourced to our external manufacturing partners, and foreign currency exchange rates.

Operating Expenses

Operating expenses consist of marketing and sales, research and development and general and administrative expenses. Personnel-related costs are the most significant component in each of these categories.

Our business strategy is to continue to be a leading online and technology-enabled manufacturer of quick-turn, on-demand injection-molded, CNC-machined, 3D-printed and sheet metal custom parts for prototyping and low-volume production. In order to achieve our goals, we anticipate continued substantial investments in technology and personnel, resulting in increased operating expenses in the future.

Marketing and sales. Marketing and sales expense consists primarily of employee compensation, benefits, commissions, stock-based compensation, marketing demand generation costs such as electronic, print and pay-per-click advertising, trade shows and other related overhead. We expect sales and marketing expense to increase in the future as we increase the number of marketing and sales professionals and marketing demand generation costs targeted to increase our customer base and grow revenue.

Research and development. Research and development expense consists primarily of personnel and outside service costs related to the development of new processes and product lines, enhancement of existing product lines, development of software for internal use, maintenance of internally developed software, quality assurance and testing. Costs for internal use software are evaluated by project and capitalized where appropriate under ASC 350-40, *Intangibles — Goodwill and Other, Internal-Use Software*. We expect research and development expense to increase in the future as we seek to enhance our e-commerce interface technology, internal software and supporting business systems, and continue to expand our product lines.

General and administrative. General and administrative expense consists primarily of employee compensation, benefits, stock-based compensation, professional service fees related to accounting, tax and legal, and other related overhead. We expect general and administrative expense to increase in the future as we continue to grow and expand as a global organization.

Closure of Japan business. Closure of Japan business expense is driven by our decision to close the Japan manufacturing facility and exit the Japan market. The expenses consist primarily of operating expense, including employee severance, write-down of fixed assets, facility-related charges and goodwill impairment charges.

Other Income, net

Other income, net primarily consists of foreign currency-related gains and losses and interest income on cash balances and investments. Our foreign currency-related gains and losses will vary depending upon movements in underlying foreign currency exchange rates. Our interest income will vary each reporting period depending on our average cash balances during the period, composition of our marketable security portfolio and the current level of interest rates.

Provision for Income Taxes

Provision for income taxes is comprised of federal, state, local and foreign taxes based on pre-tax income. Overall, our effective tax rate for 2024 and beyond may differ from historical effective tax rates due to increases in losses in foreign operations that are not eligible for tax benefits on account of valuation allowances, as well as any future tax law changes that may impact our effective tax rate.

Results of Operations

The following table summarizes our results of operations and the related changes for the periods indicated. The results below are not necessarily indicative of the results for future periods.

(dollars in thousands)	Three Months Ended June 30,				Change		Six Months Ended June 30,				Change	
	2024		2023		\$	%	2024		2023		\$	%
Revenue	\$ 125,631	100.0	\$ 122,265	100.0	\$ 3,366	2.8	\$ 253,521	100.0	\$ 248,124	100.0	\$ 5,397	2.2
Cost of revenue	69,085	55.0	69,142	56.6	(57)	(0.1)	139,508	55.0	141,225	56.9	(1,717)	(1.2)
Gross profit	56,546	45.0	53,123	43.4	3,423	6.4	114,013	45.0	106,899	43.1	7,114	6.7
Operating expenses												
Marketing and sales	23,291	18.5	21,730	17.8	1,561	7.2	46,451	18.3	44,181	17.8	2,270	5.1
Research and development	10,661	8.5	9,865	8.1	796	8.1	21,828	8.6	20,542	8.3	1,286	6.3
General and administrative	16,595	13.2	15,822	12.9	773	4.9	32,908	13.0	32,655	13.2	253	0.8
Closure of Japan business	—	—	98	0.1	(98)	(100.0)	—	—	164	0.1	(164)	(100.0)
Total operating expenses	50,547	40.2	47,515	38.9	3,032	6.4	101,187	39.9	97,542	39.3	3,645	3.7
Income from operations	5,999	4.8	5,608	4.6	391	7.0	12,826	5.1	9,357	3.8	3,469	37.1
Other income (loss), net	1,361	1.1	(3,368)	(2.8)	4,729	(140.4)	2,260	0.9	(2,078)	(0.8)	4,338	(208.8)
Income before income taxes	7,360	5.9	2,240	1.8	5,120	228.6	15,086	6.0	7,279	2.9	7,807	107.3
Provision for income taxes	2,820	2.2	2,623	2.1	197	7.5	5,278	2.1	5,003	2.0	275	5.5
Net income (loss)	\$ 4,540	3.6 %	\$ (383)	(0.3 %)	\$ 4,923	(1285.4)%	\$ 9,808	3.9 %	\$ 2,276	0.9 %	\$ 7,532	330.9 %

Stock-based compensation expense included in the statements of operations data above for the three and six months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Stock options, restricted stock and performance stock	\$ 3,938	\$ 3,267	\$ 7,893	\$ 6,588
Employee stock purchase plan	306	408	627	782
Total stock-based compensation expense	\$ 4,244	\$ 3,675	\$ 8,520	\$ 7,370
Cost of revenue	\$ 468	\$ 461	\$ 927	\$ 927
Operating expenses:				
Marketing and sales	819	855	1,651	1,548
Research and development	667	641	1,360	1,213
General and administrative	2,290	1,718	4,582	3,682
Total stock-based compensation expense	\$ 4,244	\$ 3,675	\$ 8,520	\$ 7,370

Comparison of Three Months Ended June 30, 2024 and 2023

Revenue

Revenue by reportable segment and the related changes for the three months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Three Months Ended June 30,				Change	
	2024		2023			
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue:						
United States	\$ 98,541	78.4 %	\$ 96,321	78.8 %	\$ 2,220	2.3 %
Europe	27,090	21.6 %	25,944	21.2 %	1,146	4.4
Total revenue	\$ 125,631	100.0 %	\$ 122,265	100.0 %	\$ 3,366	2.8 %

Our revenue increased \$3.4 million, or 2.8%, for the three months ended June 30, 2024 compared to the same period in 2023. By reportable segment, revenue in the United States increased \$2.2 million, or 2.3%, for the three months ended June 30, 2024 compared to the same period in 2023. Revenue in Europe increased \$1.1 million, or 4.4%, for the three months ended June 30, 2024 compared to the same period in 2023. Revenue generated from the Protolabs Network was \$24.7 million and \$20.2 million for the three months ended June 30, 2024 and 2023, respectively. International revenue was minimally impacted during the three months ended June 30, 2024 compared to the same period in 2023 as a result of foreign currency movements.

During the three months ended June 30, 2024, we served 22,456 unique customer contacts, which is a decrease of 3.9% from the same period in 2023. Our customer contacts served decreased compared to an increase in revenue. This was primarily due to our strategic focus to earn larger orders from our customers as we strive to be their supplier of choice by serving their custom parts needs through the comprehensive offer of our factory and the Protolabs Network.

Revenue by product line and the related changes for the three months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Three Months Ended June 30,				Change	
	2024		2023		\$	%
	\$	% of Total Revenue	\$	% of Total Revenue		
Revenue:						
Injection Molding	\$ 49,080	39.1 %	\$ 48,819	39.9 %	\$ 261	0.5 %
CNC Machining	51,239	40.8	48,297	39.5	2,942	6.1
3D Printing	21,281	16.9	21,005	17.2	276	1.3
Sheet Metal	3,922	3.1	3,939	3.2	(17)	(0.4)
Other Revenue	109	0.1	205	0.2	(96)	(46.8)
Total Revenue	\$ 125,631	100.0 %	\$ 122,265	100.0 %	\$ 3,366	2.8 %

By product line, our revenue increase was driven by a 6.1% increase in CNC Machining revenue, a 1.3% increase in 3D Printing revenue and a 0.5% increase in Injection Molding revenue, which was partially offset by a 0.4% decrease in Sheet Metal revenue and a 46.8% decrease in Other Revenue, in each case for the three months ended June 30, 2024 compared to the same period in 2023.

Cost of Revenue, Gross Profit and Gross Margin

Cost of Revenue. Cost of revenue decreased \$0.1 million, or 0.1%, for the three months ended June 30, 2024 compared to the same period in 2023, while revenue increased 2.8% for the three months ended June 30, 2024 compared to the same period in 2023. The decrease in the cost of revenue of \$0.1 million was primarily driven by reductions in headcount and overtime leading to lower personnel and related costs of \$0.8 million primarily in our digital manufacturing factory business during the three months ended June 30, 2024 compared to the same period in 2023. The cost reductions in our digital factories were the result of focused management of resources aligned to order volumes, partially supported by increased automation. Partially offsetting the lower personnel and related costs were increases in raw material in our factory business and production costs of \$0.4 million primarily within the our digital network business as a result of higher revenue volumes and equipment and facility related costs of \$0.3 million during the three months ended June 30, 2024 compared to the same period in 2023.

Gross Profit and Gross Margin. Gross profit increased from \$53.1 million in the three months ended June 30, 2023 to \$56.5 million in the three months ended June 30, 2024. Gross margin increased from 43.4% in the three months ended June 30, 2023 to 45.0% in the three months ended June 30, 2024.

Operating Expenses, Other (Loss) Income, net and Provision for Income Taxes

Marketing and Sales. Marketing and sales expenses increased \$1.6 million, or 7.2%, during the three months ended June 30, 2024 compared to the same period in 2023. The increase in marketing and sales expenses was primarily driven by increases in personnel and related costs of \$1.0 million, marketing demand generation costs increases of \$0.3 million and other operating costs of \$0.3 million during the three months ended June 30, 2024 when compared to the same period in 2023.

Research and Development. Our research and development expenses increased \$0.8 million, or 8.1%, during the three months ended June 30, 2024 compared to the same period in 2023 primarily due to increases in personnel and related costs of \$0.4 million, \$0.2 million in professional services and \$0.2 million of other operating costs.

General and Administrative. Our general and administrative expenses increased \$0.8 million, or 4.9%, during the three months ended June 30, 2024 compared to the same period in 2023 primarily due to increases in stock-based compensation of \$0.6 million, personnel and related costs increases of \$0.5 million and \$0.5 million in administrative costs and professional services, partially offset by decreases of \$0.4 million in intangible amortization expense and \$0.4 million of other operating costs.

Closure of Japan business. We had no expenses related to the closure of our Japan business during the three months ended June 30, 2024. Our decision to close our Japan business resulted in \$0.1 million in operating expenses during the three months ended June 30, 2023.

Other income (loss), net. We recognized other income, net of \$1.4 million for the three months ended June 30, 2024, an increase of \$4.7 million compared to other loss, net of \$3.4 million for the three months ended June 30, 2023. Other income, net for the three months ended June 30, 2024 primarily consisted of \$1.5 million in interest income on investments and other income, partially offset by \$0.1 million of foreign currency losses. Other loss, net for the three months ended June 30, 2023 primarily consisted of a \$3.9 million foreign currency translation loss from the substantial completion on the closure of our Japan business, partially offset by \$0.5 million in interest income on investments and other income.

Provision for Income Taxes. Our effective tax rate of 38.3% for the three months ended June 30, 2024 decreased 78.8% compared to 117.1% for the same period in 2023. The decrease in the effective tax rate is primarily due to the prior year one-time tax impact of the foreign currency translation loss on the closure of our Japan business. Our income tax provision of \$2.8 million for the three months ended June 30, 2024 increased \$0.2 million as compared to our income tax provision of \$2.6 million to the same period in 2023.

Comparison of Six Months Ended June 30, 2024 and 2023

Revenue

Revenue by reportable segment and the related changes for the six months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Six Months Ended June 30,				Change	
	2024		2023		\$	%
	\$	% of Total Revenue	\$	% of Total Revenue		
Revenue:						
United States	\$ 200,022	78.9 %	\$ 194,067	78.2 %	\$ 5,955	3.1 %
Europe	53,499	21.1 %	54,057	21.8 %	(558)	(1.0)
Total revenue	\$ 253,521	100.0 %	\$ 248,124	100.0 %	\$ 5,397	2.2 %

Our revenue increased \$5.4 million, or 2.2%, for the six months ended June 30, 2024 compared to the same period in 2023. By reportable segment, revenue in the United States increased \$6.0 million, or 3.1%, for the six months ended June 30, 2024 compared to the same period in 2023. Revenue in Europe decreased \$0.6 million, or 1.0%, for the six months ended June 30, 2024 compared to the same period in 2023. Revenue generated from Protolabs Network was \$48.6 million and \$37.5 million for the six months ended June 30, 2024 and 2023, respectively. International revenue was positively impacted by \$0.9 million during six months ended June 30, 2024 compared to the same period in 2023 as a result of foreign currency movements, primarily the strengthening of the British Pound and Euro relative to the United States Dollar.

During the six months ended June 30, 2024, we served 34,338 unique product developers and engineers, a decrease of 3.9% from the same period in 2023. Our customer contacts served decreased compared to an increase in revenue. This was primarily due to our strategic focus to earn larger orders from our customers as we strive to be their supplier of choice by serving their custom parts needs through the comprehensive offer of our factory and the Protolabs Network.

Revenue by product line and the related changes for the six months ended June 30, 2024 and 2023 were as follows:

(dollars in thousands)	Six Months Ended June 30,				Change	
	2024		2023			
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue:						
Injection Molding	\$ 101,743	40.1 %	\$ 100,767	40.6 %	\$ 976	1.0 %
CNC Machining	101,171	39.9	96,401	38.9	4,770	4.9
3D Printing	42,863	16.9	42,330	17.1	533	1.3
Sheet Metal	7,475	3.0	8,187	3.3	(712)	(8.7)
Other Revenue	269	0.1	439	0.2	(170)	(38.7)
Total Revenue	\$ 253,521	100.0 %	\$ 248,124	100.0 %	\$ 5,397	2.2 %

By product line, our revenue increase was driven by a 4.9% increase in CNC Machining revenue, a 1.0% increase in Injection Molding revenue, and a 1.3% increase in 3D Printing revenue, which was partially offset by a 8.7% decrease in Sheet Metal revenue and a 38.7% decrease in Other Revenue in each case for the six months ended June 30, 2024 compared to the same period in 2023.

Cost of Revenue, Gross Profit and Gross Margin

Cost of Revenue. Cost of revenue decreased \$1.7 million, or 1.2%, for the six months ended June 30, 2024 compared to the same period in 2023, while revenue increased 2.2% for the six months ended June 30, 2024 compared to the same period in 2023. The decrease in cost of revenue of \$1.7 million was driven by reductions in headcount and overtime leading to lower personnel and related costs of \$2.3 million primarily in our digital manufacturing factory business during the six months ended June 30, 2024 compared to the same period in 2023. The cost reductions in our digital factories were the result of focused management of resources aligned to order volumes, partially supported by increased automation. Partially offsetting the lower personnel and related costs were increases in equipment and facility related costs of \$0.6 million during the six months ended June 30, 2024 compared to the same period in 2023.

Gross Profit and Gross Margin. Gross profit increased from \$106.9 million in the six months ended June 30, 2023 to \$114.0 million in the six months ended June 30, 2024. Gross margin increased from 43.1% in the six months ended June 30, 2023 to 45.0% in the six months ended June 30, 2024.

Operating Expenses, Other Income (Loss), net and Provision for Income Taxes

Marketing and Sales. Marketing and sales expenses increased \$2.3 million, or 5.1%, during the six months ended June 30, 2024 compared to the same period in 2023. The increase was driven by increases in personnel and related costs of \$1.3 million, marketing demand generation costs increases of \$0.5 million and other operating costs of \$0.5 million during the six months ended June 30, 2024 when compared to the same period in 2023.

Research and Development. Our research and development expenses increased \$1.3 million, or 6.3%, during the six months ended June 30, 2024 compared to the same period in 2023 primarily due to personnel and related cost increases of \$0.4 million, professional services increases of \$0.3 million and other operating cost increases of \$0.6 million.

General and Administrative. Our general and administrative expenses increased \$0.3 million, or 0.8%, during the six months ended June 30, 2024 compared to the same period in 2023 primarily due to increases in stock-based compensation of \$0.9 million, personnel and related costs increases of \$0.8 million and professional services of \$0.6 million, partially offset by decreases in amortization costs of \$0.7 million, administrative costs decreases of \$0.6 million and other operating cost decreases of \$0.7 million.

Closure of Japan business. We had no expenses related to the closure of our Japan business during the six months ended June 30, 2024. During the six months ended June 30, 2023, we recognized \$0.2 million in operating expenses related to the closure.

Other income (loss), net. We recognized other income, net of \$2.3 million for the six months ended June 30, 2024, an increase of \$4.3 million compared to other loss, net of \$2.1 million for the six months ended June 30, 2023. Other income, net for the six months ended June 30, 2024 primarily consisted of \$2.6 million in interest income on investments and other

income, partially offset by \$0.3 million of foreign currency losses. Other loss, net for the six months ended June 30, 2023 primarily consisted of a \$3.9 million foreign currency translation loss from the substantial completion on the closure of our Japan business, which was partially offset by \$1.8 million in interest income on investments and other income.

Provision for Income Taxes. Our effective tax rate of 35.0% for the six months ended June 30, 2024 decreased 33.7% compared to 68.7% for the same period in 2023. The decrease in the effective tax rate is primarily due to the prior year one-time tax impact of the foreign currency translation loss from the substantial completion on the closure of our Japan business. Our income tax provision of \$5.3 million for the six months ended June 30, 2024 increased \$0.3 million compared to our income tax provision of \$5.0 million for the six months ended June 30, 2023.

Liquidity and Capital Resources

Cash Flows

The following table summarizes our cash flows during the six months ended June 30, 2024 and 2023:

(dollars in thousands)	Six Months Ended June 30,	
	2024	2023
Net cash provided by operating activities	\$ 35,781	\$ 31,867
Net cash provided by investing activities	3,665	7,814
Net cash used in financing activities	(26,912)	(29,666)
Effect of exchange rate changes on cash and cash equivalents	(175)	(80)
Net increase in cash and cash equivalents	<u>\$ 12,359</u>	<u>\$ 9,935</u>

Sources of Liquidity

Historically, we have primarily financed our operations and capital expenditures through cash flow from operations. We had cash and cash equivalents of \$96.1 million as of June 30, 2024, an increase of \$12.4 million from December 31, 2023. The increase in our cash was primarily due to cash provided by operating activities of \$35.8 million and proceeds from call redemptions and maturities of marketable securities of \$10.4 million, which were partially offset by \$6.8 million for purchases of property, equipment and other capital assets, and \$26.9 million in repurchases of common stock.

We believe that our existing cash and cash equivalents together with cash generated from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

Cash Flows from Operating Activities

Cash flows from operating activities were \$35.8 million during the six months ended June 30, 2024 and primarily consisted of net income of \$9.8 million, adjusted for certain non-cash items, including depreciation and amortization of \$18.1 million, stock-based compensation expense of \$8.5 million and changes in operating assets and liabilities and other items totaling \$3.5 million, which were partially offset by deferred taxes of \$4.1 million. Cash flows from operating activities were \$31.9 million during the six months ended June 30, 2023 and primarily consisted of net income of \$2.3 million, adjusted for certain non-cash items, including depreciation and amortization of \$18.9 million, stock-based compensation expense of \$7.4 million and a non-cash foreign currency translation loss of \$3.9 million, interest on finance lease obligations of \$0.6 million and changes in operating assets and liabilities and other items totaling \$4.7 million, which were partially offset by deferred taxes of \$5.6 million.

Cash flows from operating activities increased \$3.9 million during the six months ended June 30, 2024 compared to the same period in 2023, primarily due to increases in net income of \$7.5 million, stock-based compensation of \$1.2 million and deferred taxes of \$1.5 million, which were partially offset by decreases in changes in operating assets and liabilities totaling \$1.2 million, interest on finance lease obligations of \$0.6 million and depreciation and amortization of \$0.8 million. The six months ended June 30, 2023 also included a \$3.9 million non-cash foreign currency loss.

Cash Flows from Investing Activities

Cash provided by investing activities was \$3.7 million during the six months ended June 30, 2024, consisting of \$10.4 million in proceeds from call redemptions and maturities of marketable securities, which were partially offset by \$6.7 million for net purchases of property, equipment and other capital assets.

Cash provided by investing activities was \$7.8 million during the six months ended June 30, 2023, consisting of \$14.0 million in proceeds from call redemptions and maturities of marketable securities, which were partially offset by \$6.2 million for net purchases of property, equipment and other capital assets.

Cash Flows from Financing Activities

Cash used in financing activities was \$26.9 million during the six months ended June 30, 2024, consisting of \$26.9 million in repurchases of common stock, \$1.9 million in purchases of shares withheld for tax obligations associated with equity transactions and \$0.2 million for repayments of finance lease obligations, which were partially offset by \$2.1 million in proceeds from exercises of stock options.

Cash used in financing activities was \$29.7 million during the six months ended June 30, 2023, consisting of \$30.1 million in repurchases of common stock, \$1.4 million in purchases of shares withheld for tax obligations associated with equity transactions and \$0.2 million for repayments of finance lease obligations, which were partially offset by \$2.0 million in proceeds from exercises of stock options.

Critical Accounting Estimates

We have adopted various accounting policies to prepare the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires us to make estimates, judgements and assumptions. Our significant accounting policies and estimates are disclosed in Note 2 to the Consolidated Financial Statements included Part II, Item 8 in our Annual Report on Form 10-K for the year ended December 31, 2023. There were no material changes to our critical accounting policies and estimates during the six months ended June 30, 2024.

Recent Accounting Pronouncements

For information on recent accounting pronouncements, see Note 2 to the Consolidated Financial Statements appearing in Part I, Item 1 in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

As a result of our foreign operations, we have revenue, expenses, assets and liabilities that are denominated in foreign currencies. We generate revenue and incur production and sourcing costs and operating expenses in British Pounds and Euros.

Our operating results and cash flows are adversely impacted when the United States Dollar appreciates relative to foreign currencies. Additionally, our operating results and cash flows are adversely impacted when the British Pound appreciates relative to the Euro. As we expand internationally, our results of operations and cash flows will become increasingly subject to changes in foreign currency exchange rates.

We have not used forward contracts or currency borrowings to hedge our exposure to foreign currency risk. Foreign currency risk can be assessed by estimating the change in results of operations or financial position resulting from a hypothetical 10% adverse change in foreign exchange rates. We believe such a change would generally not have a material impact on our financial position, but could have a material impact on our results of operations. During the three and six months ended June 30, 2023, we recognized a foreign currency translation loss of \$3.9 million in connection with substantially completing our closure of our Japan business. We recognized foreign currency losses of \$0.1 million for the three months ended June 30, 2024 and 2023, respectively. We recognized foreign currency losses of \$0.3 million and foreign currency gains of \$0.1 million during the six months ended June 30, 2024 and 2023, respectively. The changes in foreign exchange rates had a minimal impact on consolidated revenue for the three months ended June 30, 2024 and a positive impact on consolidated revenue of \$0.9 million as for the six months ended June 30, 2024 compared to the same period in 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures are effective and provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and within the time frames specified in the SEC's rules and forms and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. 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 these financial statements, 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.

Item 1A. Risk Factors

Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2023 includes a discussion of our risk factors. There have been no material changes from the risk factors described in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 7, 2023 our board of directors approved a new stock repurchase program that added \$50 million to our previous stock repurchase authorization, which increased the total stock repurchase authorized to \$250 million. We have \$61.4 million remaining under this authorization. The timing and amount of any share repurchases will be determined by our management based on market conditions and other factors.

During the three months ended June 30, 2024, we repurchased 345,234 shares of our common stock at a total purchase price of \$10.9 million under this program. Common stock repurchase activity through June 30, 2024 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (1)
April 1, 2024 through April 30, 2024	—	\$ —	—	\$ 72,365
May 1, 2024 through May 31, 2024	269,662	\$ 31.68	269,662	\$ 63,823
June 1, 2024 through June 30, 2024	75,572	\$ 31.43	75,572	\$ 61,449
	<u>345,234</u>	<u>\$ 31.62</u>	<u>345,234</u>	<u>\$ 61,449</u>

Item 3. Defaults Upon Senior Securities

No matters to disclose.

Item 4. Mine Safety Disclosures

No matters to disclose.

Item 5. Other Information

During the three months ended June 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits

The following documents are filed as part of this report:

Exhibit Number	Description of Exhibit
3.1	Third Amended and Restated Articles of Incorporation of Proto Labs, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A, filed on February 13, 2012).
3.2	Articles of Amendment to Third Amended and Restated Articles of Incorporation of Proto Labs, Inc. dated May 20, 2015 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K, filed with the Commission on May 21, 2015).
3.3	Third Amended and Restated By-Laws of Proto Labs, Inc., as amended through November 15, 2022 (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K, filed on November 15, 2022).
10.1	Amended and Restated Proto Labs, Inc. 2022 Long-Term Incentive Plan (as amended on May 23, 2024).*
10.2	Form of Restricted Stock Unit Agreement Grant Notice under the Amended and Restated 2022 Long-Term Incentive Plan (Non-Employee Director).*
10.3	Form of Deferred Stock Unit Agreement Grant Notice under the Amended and Restated 2022 Long-Term Incentive Plan (Non-Employee Director).*
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

* Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Proto Labs, Inc.

Date: August 2, 2024

/s/ Robert Bodor

Robert Bodor
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 2, 2024

/s/ Daniel Schumacher

Daniel Schumacher
Chief Financial Officer
(Principal Financial Officer)

**AMENDED AND RESTATED
PROTO LABS, INC.
2022 LONG-TERM INCENTIVE PLAN**

1. General.

(a) Purpose. The purpose of the Proto Labs, Inc. 2022 Long-Term Incentive Plan, as amended and restated (the "Plan") is to help attract and retain the best available people for positions of responsibility with the Company, to provide additional incentives to them and align their interests with those of the Company's shareholders, and to thereby promote the Company's long-term business success.

(b) Original Plan; Effective Dates. The Plan became effective on August 29, 2022 (the "Effective Date"), and was amended and restated effective May 17, 2023. The Board has adopted this Amended and Restated Plan on February 13, 2024, subject to approval by the Company's shareholders, which date of shareholder approval is referred to as the "Amended and Restated Effective Date".

2. Definitions. In this Plan, the following definitions will apply.

(a) "Affiliate" means any entity that is a Subsidiary or Parent of the Company.

(b) "Agreement" means the written or electronic agreement containing the terms and conditions applicable to an Award granted under the Plan. An Agreement is subject to the terms and conditions of the Plan.

(c) "Award" means the grant of a compensatory award under the Plan in the form of an Option, Stock Appreciation Rights, Restricted Stock, Stock Units, Other Stock-Based Award or Cash Incentive Award.

(d) "Board" means the Board of Directors of the Company.

(e) "Cash Incentive Award" means an Award described in Section 11 of the Plan.

(f) "Cause" means what the term is expressly defined to mean in a then-effective written agreement (including an Agreement) between a Participant and the Company or any Affiliate or, in the absence of any such then-effective agreement or definition, means a Participant's (i) failure or refusal to perform satisfactorily the duties reasonably required of the Participant by the Company (other than by reason of Disability); (ii) material violation of any law, rule, regulation, court order or regulatory directive (other than traffic violations, misdemeanors or other minor offenses); (iii) material breach of any Company code of conduct or Company policy, of any agreement with the Company or any Affiliate, or of any nondisclosure, non-solicitation, non-competition or similar obligation owed to the Company or any Affiliate; (iv) engaging in any act or practice that involves personal dishonesty on the part of the Participant or demonstrates a willful and continuing disregard for the best interests of the Company and its Affiliates; or (v) engaging in conduct that would be reasonably expected to harm or bring disrepute to the Company, any of its Affiliates, or any of their customers, employees or vendors.

(g) "Change in Control" means one of the following:

(1) An Exchange Act Person becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding Voting Securities, except that the following will not constitute a Change in Control:

(A) any acquisition of securities of the Company by an Exchange Act Person directly or indirectly from the Company for the purpose of providing financing to the Company;

(B) any formation of a Group consisting solely of beneficial owners of the Company's Voting Securities as of the Effective Date of this Plan; or

(C) any Exchange Act Person becomes the beneficial owner of more than 50% of the combined voting power of the Company's outstanding Voting Securities as the result of any repurchase or other acquisition by the Company of its Voting Securities.

If, however, an Exchange Act Person or Group referenced in clause (A), (B) or (C) above acquires beneficial ownership of additional Company Voting Securities after initially becoming the beneficial owner of more than 50% of the combined voting power of the Company's outstanding Voting Securities by one of the means described in those clauses, then a Change in Control shall be deemed to have occurred.

(2) Individuals who are Continuing Directors cease for any reason to constitute a majority of the members of the Board.

(3) The consummation of a Corporate Transaction unless, immediately following such Corporate Transaction, all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Company Voting Securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding Voting Securities of the of the surviving or acquiring entity (or its Parent) resulting from such Corporate Transaction in substantially the same proportions as their ownership, immediately before such Corporate Transaction, of the outstanding Company Voting Securities.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred upon an event described in Section 2(g) unless the event would also constitute a change in ownership or effective control of, or a change in the ownership of a substantial portion of the assets of, the Company under Code Section 409A.

(h) "Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. For purposes of the Plan, references to sections of the Code shall be deemed to include any applicable regulations and guidance promulgated thereunder and any successor or similar statutory provisions.

(i) "Code Section 409A" means Section 409A of the Code.

(j) "Committee" means two or more Non-Employee Directors designated by the Board to administer the Plan under Section 3, each member of which shall (i) satisfy the independence requirements for independent directors and members of compensation committees as set forth from time to time in the Listing Rules of the Nasdaq Stock Market and (ii) be a non-employee director within the meaning of Exchange Act Rule 16b-3. The Committee shall be the Compensation and Talent Committee of the Board unless otherwise specified by the Board.

(k) "Company" means Proto Labs, Inc., a Minnesota corporation, or any successor thereto.

(l) "Continuing Director" means an individual (A) who is, as of the Effective Date of the Plan, a director of the Company, or (B) who becomes a director of the Company subsequent to the Effective Date of the Plan and whose initial election, or nomination for initial election by the Company's shareholders, was approved by at least a majority of the then Continuing Directors, but excluding, for purposes of this clause (B), any such individual whose initial assumption of office occurs as a result of an actual or threatened proxy contest involving the solicitation of proxies or consents by a person or Group other than the Board, or by reason of an agreement intended to avoid or settle an actual or threatened proxy contest.

(m) "Corporate Transaction" means a reorganization, merger, consolidation or statutory share exchange involving the Company, regardless of whether the Company is the surviving entity, or a sale or other disposition (in one or a series of transactions) of all or substantially all of the assets of the Company.

(n) "Disability" means "total and permanent disability" within the meaning of Code Section 22(e)(3).

(o) "Employee" means an employee of the Company or an Affiliate.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time.

(q) "Exchange Act Person" means any natural person, entity or Group other than (i) the Company or any Subsidiary of the Company; (ii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate; (iii) an underwriter temporarily holding securities in connection with a registered public offering of such securities; or (iv) an entity owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(r) "Fair Market Value" means the closing sales price for a Share on the New York Stock Exchange as reported in The Wall Street Journal or such other source as the Committee deems reliable, or if no sale of Shares occurred on that date, on the next preceding date on which a sale of Shares occurred; provided, however, that if the Shares are not then readily tradable on an established securities market (as determined under Code Section 409A), or if Fair Market Value for any date cannot be so determined, then Fair Market Value will be determined by the Committee as the result of a reasonable application of a reasonable valuation method that satisfies the requirements of Code Section 409A.

(s) "Full Value Award" means an Award other than an Option Award, Stock Appreciation Rights Award or Cash Incentive Award.

(t) "Grant Date" means the date on which the Committee approves the grant of an Award under the Plan, or such later date as may be specified by the Committee on the date the Committee approves the Award.

- (u) "Global Service Provider" means a Service Provider who is located outside of the United States, who is not compensated from a payroll maintained in the United States, or who is otherwise subject to (or could cause the Company to be subject to) legal, tax or regulatory requirements of countries outside of the United States.
- (v) "Group" means two or more persons who act, or agree to act together, as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding, voting or disposing of securities of the Company
- (w) "Non-Employee Director" means a member of the Board who is not an Employee.
- (x) "Option" means a right granted under the Plan to purchase a specified number of Shares at a specified price during a specified period of time. An "Incentive Stock Option" or "ISO" means any Option designated as such and granted in accordance with the requirements of Code Section 422. A "Non-Statutory Stock Option" means an Option other than an Incentive Stock Option.
- (y) "Other Stock-Based Award" means an Award described in Section 11 of this Plan.
- (z) "Parent" means a "parent corporation," as defined in Code Section 424(e).
- (aa) "Participant" means a Service Provider to whom an Award is or has been made in accordance with the Plan.
- (bb) "Performance-Based Award" means an Award that is conditioned on the achievement of specified performance goals.
- (cc) "Plan" means this Proto Labs, Inc. 2022 Long-Term Incentive Plan, as amended and in effect from time to time.
- (dd) "Prior Plan" means the Proto Labs, Inc. 2012 Long-Term Incentive Plan, as amended.
- (ee) "Restricted Stock" means Shares issued to a Participant that are subject to such restrictions on transfer, vesting conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.
- (ff) "Service" means the provision of services by a Participant to the Company or any Affiliate in any Service Provider capacity. A Service Provider's Service shall be deemed to have terminated either upon an actual cessation of providing services to the Company or any Affiliate or upon the entity for which the Service Provider provides services ceasing to be an Affiliate. Except as otherwise provided in this Plan or any Agreement, Service shall not be deemed terminated in the case of (i) any approved leave of absence; (ii) transfers among the Company and any Affiliates in any Service Provider capacity; or (iii) any change in status so long as the individual remains in the service of the Company or any Affiliate in any Service Provider capacity.
- (gg) "Service Provider" means an Employee, a Non-Employee Director, or any consultant or advisor, who is a natural person and who provides services (other than in connection with (i) a capital-raising transaction or (ii) promoting or maintaining a market in Company securities) to the Company or any Affiliate.
- (hh) "Share" means a share of Stock.
- (ii) "Stock" means the common stock, par value \$0.001 per share, of the Company.
- (jj) "Stock Appreciation Right" or "SAR" means a right granted under the Plan to receive, in cash and/or Shares as determined by the Committee, an amount equal to the appreciation in value of a specified number of Shares between the Grant Date of the SAR and its exercise date.
- (kk) "Stock Unit" means a right granted under the Plan to receive, in cash and/or Shares as determined by the Committee, the Fair Market Value of a Share, subject to such restrictions on transfer, vesting conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.
- (ll) "Subsidiary" means a "subsidiary corporation," as defined in Code Section 424(f), of the Company.
- (mm) "Substitute Award" means an Award granted upon the assumption of, or in substitution or exchange for, outstanding awards granted by a company or other entity acquired by the Company or any Affiliate or with which the Company or any Affiliate combines. The terms and conditions of a Substitute Award may vary from the terms and conditions set forth in the Plan to the extent that the Committee at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the award in substitution for which it has been granted.

(nn) "Voting Securities" of an entity means the outstanding securities entitled to vote generally in the election of directors (or comparable equity interests) of such entity.

3. **Administration of the Plan.**

(a) **Administration.** The authority to control and manage the operations and administration of the Plan shall be vested in the Committee in accordance with this Section 3. Notwithstanding the foregoing sentence, the Board shall perform the duties and have the responsibilities of the Committee with respect to Awards made to Non-Employee Directors.

(b) **Scope of Authority.** Subject to the terms of the Plan, the Committee shall have the authority, in its discretion, to take such actions as it deems necessary or advisable to administer the Plan, including:

- (1) determining the Service Providers to whom Awards will be granted, the timing of each such Award, the types of Awards and the number of Shares or amount of cash covered by each Award, the terms, conditions, performance criteria, restrictions and other provisions of Awards, and the manner in which Awards are paid or settled;
- (2) cancelling or suspending an Award or the exercisability of an Award, accelerating the vesting or extending the exercise period of an Award, or otherwise amending the terms and conditions of any outstanding Award, subject to the requirements of Sections 6(b), 15(d) and 15(e);
- (3) establishing, amending or rescinding rules to administer the Plan, interpreting the Plan and any Award or Agreement made under the Plan, and making all other determinations necessary or desirable for the administration of the Plan; and
- (4) taking such actions as are described in Section 3(c) with respect to Awards to Global Service Providers.

(c) **Awards to Global Service Providers.** The Committee may grant Awards to Global Service Providers, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to comply with applicable foreign laws and regulatory requirements and to promote achievement of the purposes of the Plan. In connection therewith, the Committee may establish such subplans or annexes to Award Agreements and may modify exercise procedures and other Plan rules and procedures to the extent such actions are deemed necessary or desirable, and may take any other action that it deems advisable to obtain local regulatory approvals or to comply with any necessary local governmental regulatory exemptions.

(d) **Acts of the Committee; Delegation.** A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and any act of a majority of the members present at any meeting at which a quorum is present or any act unanimously approved in writing by all members of the Committee shall be the act of the Committee. Any such action of the Committee shall be valid and effective even one or more of the members of the Committee at the time of such action are later determined not to have satisfied all of the criteria for membership in clauses (i) or (ii) of Section 2(j). To the extent not inconsistent with applicable law or stock exchange rules, the Committee may delegate all or any portion of its authority under the Plan to any one or more of its members or, as to Awards to Participants who are not subject to Section 16 of the Exchange Act, to one or more directors or executive officers of the Company, or to a committee of the Board comprised of one or more directors of the Company. The Committee may also delegate non-discretionary administrative responsibilities in connection with the Plan to such other persons as it deems advisable.

(e) **Finality of Decisions.** The Committee's interpretation of the Plan and of any Award or Agreement made under the Plan and all related decisions or resolutions of the Board or Committee shall be final and binding on all parties with an interest therein.

(f) **Indemnification.** Each person who is or has been a member of the Committee or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified by the Company, to the maximum extent permitted by law, against liabilities and expenses imposed upon or reasonably incurred by such person in connection with or resulting from any claims against such person by reason of the performance of the individual's duties under the Plan. This right to indemnification is conditioned upon such person providing the Company an opportunity, at the Company's expense, to handle and defend the claims before such person undertakes to handle and defend them on such person's own behalf. The Company will not be required to indemnify any person for any amount paid in settlement of a claim unless the Company has first consented in writing to the settlement. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise.

4. **Shares Available Under the Plan.**

(a) **Maximum Shares Available.** Subject to the provisions of this Section 4 and to adjustment as provided in Section 12(a), the number of Shares that may be the subject of Awards and issued under the Plan shall be 2,225,500 plus any Shares subject to outstanding awards under the Prior Plan that expire, are cancelled, or are otherwise forfeited. Shares to be issued under the Plan shall be authorized and unissued Shares. In determining the number of Shares to be counted against this share reserve in connection with any Award, the following rules shall apply:

(1) Where the number of Shares subject to an Award is variable on the Grant Date, the number of Shares to be counted against the share reserve shall be the maximum number of Shares that could be received under that particular Award, until such time as it can be determined that only a lesser number of shares could be received.

(2) Where two or more types of Awards are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, the number of Shares to be counted against the share reserve shall be the largest number of Shares that would be counted against the share reserve under either of the Awards.

(3) Shares subject to Substitute Awards shall not be counted against the share reserve, nor shall they reduce the Shares authorized for grant to a Participant in any calendar year.

(4) Awards that may be settled solely in cash shall not be counted against the share reserve, nor shall they reduce the Shares authorized for grant to a Participant in any calendar year.

(b) **Effect of Forfeitures and Other Actions.** Any Shares subject to an Award, or to an award granted under the Prior Plan that is outstanding on the Effective Date of this Plan (a "Prior Plan Award"), that is cancelled, expires or forfeited or is settled for cash shall, to the extent of such cancellation, forfeiture, expiration or cash settlement, again become available for Awards under this Plan, the share reserve under Section 4(a) shall be correspondingly replenished as provided in Section 4(c) below. The following Shares shall not, however, again become available for Awards or replenish the share reserve under Section 4(a): (i) Shares tendered (either actually or by attestation) by the Participant or withheld by the Company in payment of the exercise price of a stock option issued under this Plan or the Prior Plan, (ii) Shares tendered (either actually or by attestation) by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award or Prior Plan Award, (iii) Shares repurchased by the Company with proceeds received from the exercise of an option issued under this Plan or the Prior Plan, and (iv) Shares subject to a stock appreciation right award issued under this Plan or the Prior Plan that are not issued in connection with the stock settlement of that Award upon its exercise.

(c) **Counting Shares Again Available.** Each Share that again becomes available for Awards as provided in Section 4(b) shall correspondingly increase the share reserve under Section 4(a), with such increase based on the same share ratio by which the applicable share reserve was decreased upon the grant of the applicable award.

(d) **Effect of Plans Operated by Acquired Companies.** If a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall supplement the share reserve under Section 4(a). Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Non-Employee Directors prior to such acquisition or combination.

(e) **No Fractional Shares.** Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number. No fractional Shares may be issued under the Plan, but the Committee may, in its discretion, adopt any rounding convention it deems suitable or pay cash in lieu of any fractional Share in settlement of an Award.

(f) **Limits on Awards to Non-Employee Directors.** The aggregate grant date fair value (as determined in accordance with generally accepted accounting principles applicable in the United States) of all Awards granted during any calendar year to any Non-Employee Director, together with the amount of any cash fees or retainers

paid to such Non-Employee Director during such calendar year with respect to such individual's Service as a Non-Employee Director shall not exceed \$750,000.

5. **Eligibility.** Participation in the Plan is limited to Service Providers. Incentive Stock Options may only be granted to Employees who are not Global Service Providers.

6. **General Terms of Awards.**

(a) **Award Agreement.** Except for any Award that involves only the immediate issuance of unrestricted Shares, each Award shall be evidenced by an Agreement setting forth the number of Shares subject to the Award together with such other terms and conditions applicable to the Award (and not inconsistent with the Plan) as determined by the Committee. If an Agreement calls for acceptance by the Participant, the Award evidenced by the Agreement will not become effective unless acceptance of the Agreement in a manner permitted by the Committee is received by the Company within 30 days of the date the Agreement is delivered to the Participant. An Award to a Participant may be made singly or in combination with any form of Award. Two types of Awards may be made in tandem with each other such that the exercise of one type of Award with respect to a number of Shares reduces the number of Shares subject to the related Award by at least an equal amount.

(b) **Vesting and Term.** Each Agreement shall set forth the period until the applicable Award is scheduled to vest and, if applicable, expire (which shall not be more than ten years from the Grant Date), and consistent with the requirements of this Section 6, the applicable vesting conditions and any applicable performance period. Awards that vest based solely on the satisfaction by the Participant of service-based vesting conditions shall be subject to a vesting period of not less than one year from the applicable Grant Date (during which no portion of the award may be scheduled to vest), and Awards whose grant or vesting is subject to the satisfaction of performance goals over a performance period shall be subject to a performance period of not less than one year. The foregoing minimum vesting and performance periods will not, however, apply in connection with: (i) a Change in Control as provided in Sections 12(b) or 12(c), (ii) a Separation from Service due to death or Disability, (iii) to a Substitute Award that does not reduce the vesting period of the award being replaced, (iv) Awards made in payment of or exchange for other compensation already earned and payable, and (v) outstanding, exercised and settled Awards involving an aggregate number of Shares not in excess of 5% of the Plan's share reserve specified in Section 4(a). For purposes of Awards to Non-Employee Directors, a vesting period will be deemed to be one year if runs from the date of one annual meeting of the Company's stockholders to the date of the next annual meeting of the Company's shareholders. Unless the Committee provides otherwise, the vesting of Awards granted hereunder will continue to vest during any unpaid leave of absence.

(c) **Transferability.** Except as provided in this Section 6(c), (i) during the lifetime of a Participant, only the Participant or the Participant's guardian or legal representative may exercise an Option or SAR, or receive payment with respect to any other Award; and (ii) no Award may be sold, assigned, transferred, exchanged or encumbered, voluntarily or involuntarily, other than by will or the laws of descent and distribution. Any attempted transfer in violation of this Section 6(c) shall be of no effect. The Committee may, however, provide in an Agreement or otherwise that an Award (other than an Incentive Stock Option) may be transferred pursuant to a domestic relations order or may be transferable by gift to any "family member" (as defined in General Instruction A(1)(a)(5) to Form S-8 under the Securities Act of 1933) of the Participant. Any Award held by a transferee shall continue to be subject to the same terms and conditions that were applicable to that Award immediately before the transfer thereof. For purposes of any provision of the Plan relating to notice to a Participant or to acceleration or termination of an Award upon the death or termination of Service of a Participant, the references to "Participant" shall mean the original grantee of an Award and not any transferee.

(d) **Designation of Beneficiary.** The Committee may permit each Participant to designate a beneficiary or beneficiaries to exercise any Award or receive a payment under any Award that is exercisable or payable on or after the Participant's death. Any such designation shall be on a written or electronic form approved by the Committee and shall be effective upon its receipt by the Company or an agent selected by the Company.

(e) **Termination of Service.** Unless otherwise provided in an Agreement, and subject to Sections 6(i) and 12 of this Plan, if a Participant's Service with the Company and all of its Affiliates terminates, the following provisions shall apply (in all cases subject to the originally scheduled expiration of an Option or Stock Appreciation Right Award, as applicable):

- (1) Upon termination of Service for Cause, or upon conduct during a post-termination exercise period that would constitute Cause, all unexercised Options and SARs and all unvested portions of any other outstanding Awards shall be immediately forfeited without consideration.

(2) Upon termination of Service due to death or Disability, any unvested portion of an Award shall immediately become vested (and exercisable, if applicable), and the vested and exercisable portions of Options or SARs may be exercised for a period of twelve months after the date of such termination and shall terminate upon the expiration of such period.

(3) Upon a termination of Service for any reason other than Cause, death or Disability, all unvested and unexercisable portions of any outstanding Awards shall be immediately forfeited without consideration, but the currently vested and exercisable portions of Options and SARs may be exercised for a period of three months after the date of such termination and shall, subject to the following sentence, terminate upon the expiration of such period. However, if a Participant dies during such three-month post-termination exercise period, then the applicable post-termination exercise period shall be extended to twelve months after the date of such termination.

(f) Rights as Shareholder. No Participant shall have any rights as a shareholder with respect to any Shares covered by an Award unless and until the date the Participant becomes the holder of record of the Shares, if any, to which the Award relates.

(g) Performance-Based Awards. Any Award may be granted as Performance-Based Award if the Committee establishes one or more measures of corporate, Subsidiary, business unit or individual performance which must be attained, and the performance period over which the specified performance is to be attained, as a condition to the grant, vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award. In connection with any such Award, the Committee shall determine the extent to which performance measures have been attained and other applicable terms and conditions have been satisfied, and the degree to which the grant, vesting, exercisability, lapse of restrictions and/or settlement of such Award has been earned. Any Performance-Based Award shall additionally be subject to the requirements of Section 17 of this Plan. Except as provided in Section 17 with respect to Performance-Based Award, the Committee shall also have the authority to provide, in an Agreement or otherwise, for the modification of a performance period and/or an adjustment or waiver of the achievement of performance goals upon the occurrence of events that are unusual in nature or infrequently occurring, such as a Change of Control, a Corporate Transaction, an equity restructuring, a recapitalization, a divestiture, a change in the accounting practices of the Company, or the Participant's death or Disability.

(h) Dividends and Dividend Equivalents. Any dividends, dividend equivalents or distributions paid with respect to Shares that are subject to the unvested portion of an Award will be subject to the same restrictions as the Shares to which such dividends or distributions relate. No dividends, dividend equivalents or distributions will be paid with respect to Shares subject to an Option or SAR Award. In its discretion, the Committee may provide in an Agreement for a Stock Unit Award or an Other Stock-Based Award that the Participant will be entitled to receive dividend equivalents on the units or other Share equivalents subject to the Award based on dividends actually declared and paid on outstanding Shares. Dividends and dividend equivalents on Performance-Based Awards will be subject to the same terms and conditions, including vesting conditions and the achievement of any applicable performance goals, as the original Award. The additional terms of any such dividend equivalents will be as set forth in the applicable Award Agreement, including any additional restrictions and whether such dividend equivalents will be credited with interest or deemed to be reinvested in additional units or Share equivalents. Any Shares issued or issuable during the term of this Plan as the result of the reinvestment of dividends or the deemed reinvestment of dividend equivalents in connection with an Award or a Prior Plan Award shall be counted against, and replenish upon any subsequent forfeiture, the Plan's share reserve as provided in Section 4.

(i) Extension of Termination Date. If a Participant would otherwise be precluded from exercising an Option or SAR prior to the expiration of its scheduled term or prior to its termination following the termination of the Participant's Service solely because the issuance of the Shares upon such exercise would violate applicable registration requirements under the Securities Act, then the Committee may provide that the period during which the Option or SAR may be exercised and the termination date of the Option or SAR shall be extended until the later of (i) the date that is 30 days after the exercise of the Option or SAR would no longer violate the registration requirements of the Securities Act, or (ii) the end of the applicable post-termination exercise period, but in no event later than the scheduled expiration date of the Option as set forth in the applicable Agreement.

7. Stock Option Awards

(a) Type and Exercise Price. The Agreement pursuant to which an Option is granted shall specify whether the Option is an Incentive Stock Option or a Non-Statutory Stock Option. The exercise price at which each Share subject to an Option may be purchased shall be determined by the Committee and set forth in the Agreement,

and shall not be less than the Fair Market Value of a Share on the Grant Date, except in the case of Substitute Awards (to the extent consistent with Code Section 409A and, in the case of Incentive Stock Options, Code Section 424).

(b) Payment of Exercise Price. The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise. The purchase price may be paid in cash or in such other manner as the Committee may permit, including by payment under a broker-assisted sale and remittance program acceptable to the Committee or by withholding Shares otherwise issuable to the Participant upon exercise of the Option or by delivery to the Company of Shares (by actual delivery or attestation) already owned by the Participant (in each case, such Shares having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased).

(c) Exercisability and Expiration. Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. No Option shall be exercisable at any time after its scheduled expiration. When an Option is no longer exercisable, it shall be deemed to have terminated.

(d) Incentive Stock Options.

(1) An Option will constitute an Incentive Stock Option only if the Participant receiving the Option is an Employee who is not a Global Service Provider, and only to the extent that (i) it is so designated in the applicable Agreement and (ii) the aggregate Fair Market Value (determined as of the Option's Grant Date) of the Shares with respect to which Incentive Stock Options held by the Participant first become exercisable in any calendar year (under the Plan and all other plans of the Company and its Affiliates) does not exceed \$100,000. To the extent an Option granted to a Participant exceeds this limit, the Option shall be treated as a Non-Statutory Stock Option. The maximum number of Shares that may be issued upon the exercise of Incentive Stock Options shall equal the maximum number of Shares that may be the subject of Awards and issued under the Plan as provided in the first sentence of Section 4(a) subject to adjustment as provided in Section 12(a).

(2) No Participant may receive an Incentive Stock Option under the Plan if, immediately after the grant of such Award, the Participant would own (after application of the rules contained in Code Section 424(d)) Shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, unless (i) the option price for that Incentive Stock Option is at least 110% of the Fair Market Value of the Shares subject to that Incentive Stock Option on the Grant Date and (ii) that Option will expire no later than five years after its Grant Date.

(3) For purposes of continued Service by a Participant who has been granted an Incentive Stock Option, no approved leave of absence may exceed three months unless reemployment upon expiration of such leave is provided by statute or contract. If reemployment is not so provided, then on the date six months following the first day of such leave, any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Non-Statutory Stock Option.

(4) If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Code Section 422, or otherwise fails to qualify as an Incentive Stock Option, such Option shall thereafter be treated as a Non-Statutory Stock Option.

(5) The Agreement covering an Incentive Stock Option shall contain such other terms and provisions that the Committee determines necessary to qualify the Option as an Incentive Stock Option.

8. Stock Appreciation Rights

(a) Nature of Award. An Award of Stock Appreciation Rights shall be subject to such terms and conditions as are determined by the Committee, and shall provide a Participant the right to receive upon exercise of the SAR all or a portion of the excess of (i) the Fair Market Value as of the date of exercise of the SAR of the number of Shares as to which the SAR is being exercised, over (ii) the aggregate exercise price for such number of Shares. The per Share exercise price for any SAR Award shall be determined by the Committee and set forth in the applicable Agreement, and shall not be less than the Fair Market Value of a Share on the Grant Date, except in the case of Substitute Awards (to the extent consistent with Code Section 409A).

(b) Exercise of SAR. Each SAR may be exercisable in whole or in part at the times, on the terms and in the manner provided in the Agreement. No SAR shall be exercisable at any time after its scheduled expiration. When a SAR is no longer exercisable, it shall be deemed to have terminated. Upon exercise of a SAR, payment to the Participant shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares

or a combination of cash and Shares as determined by the Committee. The Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a SAR.

9. Restricted Stock Awards.

(a) Vesting and Consideration. Shares subject to a Restricted Stock Award shall be subject to vesting conditions, and the corresponding lapse of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the grant of a Restricted Stock Award, and may correspondingly provide for Company reacquisition or repurchase rights if such additional consideration has been required and some or all of a Restricted Stock Award does not vest.

(b) Shares Subject to Restricted Stock Awards. Unvested Shares subject to a Restricted Stock Award shall be evidenced by a book-entry in the name of the Participant with the Company's transfer agent or by one or more Stock certificates issued in the name of the Participant. Any such Stock certificate shall be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, and bear an appropriate legend referring to the restricted nature of the Restricted Stock evidenced thereby. Any book-entry shall be subject to transfer restrictions and accompanied by a similar legend. Upon the vesting of Shares of Restricted Stock and the corresponding lapse of the restrictions and forfeiture conditions, and any necessary conditions precedent to the release of vested Shares (such as satisfaction of tax withholding obligations) have been satisfied, the corresponding transfer restrictions and restrictive legend will be removed from the book-entry evidencing such Shares or the certificate evidencing such Shares, and any such certificate shall be delivered to the Participant. Such vested Shares may, however, remain subject to additional restrictions as provided in Section 18(c). Except as otherwise provided in the Plan or an applicable Agreement, a Participant with a Restricted Stock Award shall have all the rights of a shareholder, including the right to vote the Shares of Restricted Stock.

10. Stock Unit Awards.

(a) Vesting and Consideration. A Stock Unit Award shall be subject to vesting conditions, and the corresponding lapse of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. If a Stock Unit Award is a Performance-Based Award, the extent to which the goals are achieved over the specified performance period shall determine the number of Stock Units that will be earned and eligible to vest, which may be greater or less than the target number of Stock Units stated in the Agreement. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the settlement of a Stock Unit Award.

(b) Settlement of Award. Following the vesting of a Stock Unit Award, and the Committee's determination that any necessary conditions precedent to the settlement of the Award (such as satisfaction of tax withholding obligations and compliance with applicable legal requirements) have been satisfied, settlement of the Award and payment to the Participant shall be made at such time or times in the form of cash, Shares (which may themselves be considered Restricted Stock under the Plan subject to restrictions on transfer and forfeiture conditions) or a combination of cash and Shares as determined by the Committee.

11. Cash-Based and Other Stock-Based Awards.

(a) Cash Incentive Awards. A Cash Incentive Award may be considered a Performance-Based Award, and may be granted to any Participant in such amounts and upon such terms and at such times as shall be determined by the Committee, and may be denominated in units that have a dollar value established by the Committee as of the Grant Date. Following the completion of the applicable performance period and the vesting of a Cash Incentive Award, payment of the settlement amount of the Award to the Participant shall be made at such time or times in the form of cash, Shares or other forms of Awards under the Plan (valued for these purposes at their grant date fair value) or a combination of cash, Shares and other forms of Awards as determined by the Committee and specified in the applicable Agreement.

(b) Other Stock-Based Awards. The Committee may from time to time grant Stock and other Awards that are valued by reference to and/or payable in whole or in part in Shares under the Plan. The Committee, in its sole discretion, shall determine the terms and conditions of such Awards, which shall be consistent with the terms and purposes of the Plan. The Committee may, in its sole discretion, direct the Company to issue Shares

subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.

12. Changes in Capitalization and Other Corporate Events.

(a) Adjustments for Changes in Capitalization. In the event of any equity restructuring (within the meaning of FASB ASC Topic 718 - Stock Compensation) that causes the per share value of Shares to change, such as a stock dividend, stock split, spinoff, rights offering or recapitalization through an extraordinary dividend, the Committee shall make such adjustments as it deems equitable and appropriate to (i) the aggregate number and kind of Shares or other securities issued or reserved for issuance under the Plan, (ii) the number and kind of Shares or other securities subject to outstanding Awards, (iii) the exercise price of outstanding Options and SARs, and (iv) any maximum limitations prescribed by the Plan with respect to certain types of Awards or the grants to individuals of certain types of Awards. In the event of any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights of Participants. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. No adjustment shall be made pursuant to this Section 12(a) in connection with the conversion of any convertible securities of the Company, or in a manner that would cause Incentive Stock Options to violate Section 422(b) of the Code or cause an Award to be subject to adverse tax consequences under Code Section 409A.

(b) Corporate Transactions. Unless otherwise provided in an applicable Agreement, in the event of a Change in Control that involves a Corporate Transaction, the Board or the Committee shall take one or more of the following actions with respect to outstanding Awards, which actions may vary among individual Participants and among Awards held by an individual Participant, and are conditioned in each case upon the closing or completion of the Corporate Transaction:

(1) Continuation, Assumption or Replacement of Awards. Arrange for the surviving or successor entity (or its Parent) to continue, assume or replace Awards outstanding as of the date of the Corporate Transaction (with such adjustments as may be required or permitted by Section 12(a)), and such Awards or replacements therefor to remain outstanding and be governed by their respective terms. A surviving or successor entity may elect to continue, assume or replace only some Awards or portions of Awards. For purposes of this Section 12(b)(1), an Award shall be considered assumed or replaced if, in connection with the Corporate Transaction and in a manner consistent with Code Sections 409A and 424, either (i) the contractual obligations represented by the Award are expressly assumed by the surviving or successor entity (or its Parent) with appropriate adjustments to the number and type of securities subject to the Award and the exercise price thereof that preserves the intrinsic value of the Award existing at the time of the Corporate Transaction, or (ii) the Participant has received a comparable equity-based award that preserves the intrinsic value of the Award existing at the time of the Corporate Transaction and is subject to substantially similar terms and conditions as the Award.

(2) Acceleration. Accelerate the vesting (and exercisability, if applicable) of (i) some or all outstanding Options and SARs so that such Awards may be exercised in full for such limited period of time prior to the effective time of the Corporate Transaction as is deemed fair and equitable by the Board or Committee, with such Awards then terminating to the extent not exercised at the effective time of the Corporate Transaction, and (ii) some or all outstanding Full Value Awards or Cash Incentive Awards immediately prior to the effective time of the Corporate Transaction. In the case of Performance-Based Awards, the number of Shares or the amount of a Cash Incentive Award subject to such accelerated vesting shall be based on a determination by the Board or Committee of the degree to which any performance-based vesting or payment conditions will be deemed satisfied. The Board or Committee shall provide written notice of the period of accelerated exercisability of Options and SARs to all affected Participants, and any exercise of such accelerated Awards shall be conditioned upon the consummation of the Corporate Transaction and shall be effective only immediately before the effective time of the Corporate Transaction.

(3) Payment for Awards. Cancel some or all outstanding Awards at or immediately prior to the effective time of the Corporate Transaction in exchange for payments to the holders as provided in this Section 12(b)(3). The payment for any Award canceled shall be in an amount equal to the difference, if any, between (i) the fair market value (as determined in good faith by the Board or Committee) of the consideration that would otherwise be received in the Corporate Transaction for the number of Shares remaining subject to the Award, and (ii) the aggregate exercise price (if any) for the number of Shares remaining subject to such Award. If the amount determined pursuant to clause (i) of the preceding sentence is less than or equal to the amount determined pursuant to clause (ii) of the preceding sentence with respect to any Award, such Award

may be canceled without payment of any kind to the affected Participant. The payment for any canceled Cash Incentive Award that was to be settled in Shares shall be in an amount equal to the settlement amount that was to form the basis for the calculation of the number of Shares to be issued. In the case of Performance-Based Awards, the number of Shares remaining subject to an Award or the settlement amount of a Cash Incentive Award shall be calculated based on a determination by the Board or Committee of the degree to which any performance-based vesting or payment conditions will be deemed satisfied. Payment of any amount under this Section 12(b)(3) shall be made in such form (including in shares of the surviving or successor entity or its Parent), on such terms and subject to such conditions as the Board or Committee determines in its discretion, which may or may not be the same as the form, terms and conditions applicable to payments to the Company's shareholders in connection with the Corporate Transaction, and may, in the discretion of the Board or Committee, include subjecting such payments to vesting conditions comparable to those of the Award canceled, subjecting such payments to escrow or holdback terms comparable to those imposed upon the Company's shareholders under the Corporate Transaction, or calculating and paying the present value of payments that would otherwise be subject to escrow or holdback terms.

(4) Termination After a Corporate Transaction. Provide that with respect to any Award that is continued, assumed or replaced under the circumstances described in Section 12(b)(1), if within 18 months after the Corporate Transaction the Participant experiences an involuntary termination of Service from the surviving or successor entity (or its Parent or subsidiary) for reasons other than Cause, then (i) outstanding Options and SARs issued to the Participant that are not yet fully exercisable shall immediately become exercisable in full and shall remain exercisable for one year following the Participant's termination of Service, and (ii) any Full Value Awards that are not yet fully vested shall immediately vest in full, with vesting in full for a Performance-Based Award determined as provided in Section 12(b)(2).

(5) Adjustments to Awards. Make such adjustments to some or all outstanding Awards as may be required or permitted by Sections 12(a) and 6(g).

(c) Other Change in Control. In connection with a Change in Control that does not involve a Corporate Transaction, the Board or Committee may provide (in the applicable Agreement or otherwise) for one or more of the following: (i) that any Award shall become fully vested (and exercisable, if applicable) upon the occurrence of the Change in Control or upon the involuntary termination of the Participant without Cause within 18 months of the Change in Control, (ii) that any Option or SAR shall remain exercisable during all or some specified portion of its remaining term, or (iii) that Awards shall be canceled in exchange for payments in a manner similar to that provided in Section 12(b)(3). The Committee will not be required to treat all Awards similarly in such circumstances.

(d) Dissolution or Liquidation. Unless otherwise provided in an applicable Agreement, in the event the shareholders of the Company approve the complete dissolution or liquidation of the Company, all outstanding Awards will terminate immediately prior to the consummation of any such proposed action. The Committee will notify each Participant as soon as practicable of such pending termination.

(e) Limitation on Change in Control Payments. If any payments to a Participant pursuant to Awards made under this Plan (including, for this purpose, the acceleration of the vesting and exercisability of any Award or the payment of cash or other property in exchange for all or part of any Award), taken together with any payments or benefits otherwise paid or distributed to the Participant by the Company or any corporation that is a member of an "affiliated group" (as defined in Section 1504 of the Code without regard to Section 1504(b) of the Code) of which the Company is a member (the "other arrangements") would collectively constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), and if the net after-tax amount of such parachute payment to the Participant is less than what the net after-tax amount to the Participant would be if the aggregate payments and benefits otherwise constituting the parachute payment were limited to three times the Participant's "base amount" (as defined in Section 280G(b)(3) of the Code) less \$1.00, then the aggregate payments and benefits otherwise constituting the parachute payment shall be reduced to an amount that shall equal three times the Participant's base amount, less \$1.00. Should such a reduction in payments and benefits be required, the Participant shall be entitled, subject to the following sentence, to designate those payments and benefits under this Plan or the other arrangements that will be reduced or eliminated (including, as applicable, a reduction in the number of Shares subject to Awards that will vest on an accelerated basis) so as to achieve the specified reduction in aggregate payments and benefits to the Participant and avoid characterization of such aggregate payments and benefits as a parachute payment. To the extent that the Participant's ability to make such a designation would cause any of the payments and benefits to become subject to any additional tax under Code Section 409A, or if the Participant fails to make such a designation within the time prescribed by the Committee, then the Committee shall achieve the necessary reduction in such payments and benefits in the following order: (1) by reducing or eliminating the portion of the payments and benefits that are payable in cash; (2) by reducing

or eliminating equity awards (or the accelerated vesting thereof) that are included as parachute payments; (3) by reducing or eliminating any non-cash, non-equity benefits; in each case, within each category, in reverse order beginning with payments and benefits which are to be paid or provided the furthest in time from the date of the Committee's determination. For purposes of this Section 12(e), a net after-tax amount shall be determined by taking into account all applicable income, excise and employment taxes, whether imposed at the federal, state or local level, including the excise tax imposed under Section 4999 of the Code.

13. **Plan Participation and Service Provider Status.** Status as a Service Provider shall not be construed as a commitment that any Award will be made under the Plan to that Service Provider or to eligible Service Providers generally. Nothing in the Plan or in any Agreement or related documents shall confer upon any Service Provider or Participant any right to continued Service with the Company or any Affiliate, nor shall it interfere with or limit in any way any right of the Company or any Affiliate to terminate the person's Service at any time with or without Cause or change such person's compensation, other benefits, job responsibilities or title.
14. **Tax Withholding.** The Company or any Affiliate, as applicable, shall have the right to (i) withhold from any cash payment under the Plan or any other compensation owed to a Participant an amount sufficient to cover any required withholding taxes related to the grant, vesting, exercise or settlement of an Award, and (ii) require a Participant or other person receiving Shares under the Plan to pay a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee may permit the individual to cover all or any part of the required withholdings (up to the Participant's maximum individual statutory tax withholding rate) through a reduction in the number of Shares delivered or a delivery or tender to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under applicable laws.
15. **Duration, Amendment and Termination of the Plan.**
 - (a) **Duration of the Plan.** The Plan shall remain in effect until all Shares subject to it shall be distributed, the Plan is terminated pursuant to Section 15(c), or the tenth anniversary of the Amended and Restated Effective Date, whichever occurs first (the "Termination Date"). Awards made before the Termination Date shall continue to be outstanding in accordance with their terms and the terms of the Plan unless otherwise provided in the applicable Agreements.
 - (b) **Amendment and Termination of the Plan.** The Board may at any time terminate, suspend or amend the Plan. The Company shall submit any amendment of the Plan to its shareholders for approval only to the extent required by applicable laws or regulations or the rules of any securities exchange on which the Shares may then be listed. No termination, suspension, or amendment of the Plan may materially impair the rights of any Participant under a previously granted Award without the Participant's consent, unless such action is necessary to comply with applicable law or stock exchange rules.
 - (c) **Amendment of Awards.** Subject to Section 15(e), the Committee may unilaterally amend the terms of any Agreement previously granted, except that no such amendment may materially impair the rights of any Participant under the applicable Award without the Participant's consent, unless such amendment is necessary to comply with applicable law or stock exchange rules or any compensation recovery policy as provided in Section 18(i)(2).
 - (d) **No Option or SAR Repricing.** Except as provided in Section 12(a), no Option or Stock Appreciation Right Award granted under the Plan may be (i) amended to decrease the exercise price thereof, (ii) cancelled in conjunction with the grant of any new Option or Stock Appreciation Right Award with a lower exercise price, (iii) cancelled in exchange for cash, other property or the grant of any Full Value Award at a time when the per share exercise price of the Option or Stock Appreciation Right Award is greater than the current Fair Market Value of a Share, or (iv) otherwise subject to any action that would be treated under accounting rules as a "repricing" of such Option or Stock Appreciation Right Award, unless such action is first approved by the Company's shareholders.
16. **Substitute Awards.** The Committee may also grant Awards under the Plan in substitution for, or in connection with the assumption of, existing awards granted or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company or an Affiliate is a party. The terms and conditions of the Substitute Awards may vary from the terms and conditions

set forth in the Plan to the extent that the Committee at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

17. Performance-Based Awards.

(a) Performance-Based Awards. If an Award is a Performance-Based Award, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement over the applicable performance period of one or more performance goals based on one or more of the performance measures specified in Section 17(b). The Committee will select the applicable performance measure(s) and specify the performance goal(s) based on those performance measures for any performance period, specify in terms of an objective formula or standard the method for calculating the amount payable to a Participant if the performance goal(s) are satisfied, and certify the degree to which applicable performance goals have been satisfied and any amount that vests and is payable in connection with an Award subject to this Section 17. In specifying the performance goals applicable to any performance period, the Committee may provide that one or more objectively determinable adjustments shall be made to the performance measures on which the performance goals are based, which may include adjustments that would cause such measures to be considered "non-GAAP financial measures" within the meaning of Rule 101 under Regulation G promulgated by the Securities and Exchange Commission, including adjustments for events that are unusual in nature or infrequently occurring, such as a Change in Control, acquisitions, divestitures, restructuring activities or asset write-downs, or for changes in applicable tax laws or accounting principles. The Committee may also adjust performance measures for a performance period in connection with an event described in Section 12(a) to prevent the dilution or enlargement of a Participant's rights with respect to Performance-Based Award. The Committee may adjust any amount determined to be otherwise payable in connection with such an Award. The Committee may also provide, in an Agreement or otherwise, that the achievement of specified performance goals in connection with an Award subject to this Section 17 may be waived upon the Death or Disability of the Participant.

18. Other Provisions.

(a) Unfunded Plan. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Neither the Company, its Affiliates, the Committee, nor the Board shall be deemed to be a trustee of any amounts to be paid under the Plan nor shall anything contained in the Plan or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between the Company and/or its Affiliates, and a Participant. To the extent any person has or acquires a right to receive a payment in connection with an Award under the Plan, this right shall be no greater than the right of an unsecured general creditor of the Company.

(b) Limits of Liability. Except as may be required by law, neither the Company nor any member of the Board or of the Committee, nor any other person participating (including participation pursuant to a delegation of authority under Section 3(c) of the Plan) in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken, or not taken, in good faith under the Plan.

(c) Compliance with Applicable Legal Requirements and Company Policies. No Shares distributable pursuant to the Plan shall be issued and delivered unless the issuance of the Shares complies with all applicable legal requirements, including compliance with the provisions of applicable state and federal securities laws, and the requirements of any securities exchanges on which the Company's Shares may, at the time, be listed. The Committee may, in its discretion, to the extent permitted by Code Section 409A, if applicable, suspend the right to exercise Options or SARs to be settled in Shares, or delay the payment or settlement of any other Awards to be paid or settled in Shares, during any period in which the issuance of such Shares would not be in compliance with any applicable legal or securities exchange requirements. During any period in which the offering and issuance of Shares under the Plan are not registered under federal or state securities laws, Participants shall acknowledge that they are acquiring Shares under the Plan for investment purposes and not for resale, and that Shares may not be transferred except pursuant to an effective registration statement under, or an exemption from the registration requirements of, such securities laws. Any book-entry or stock certificate evidencing Shares issued under the Plan that are subject to such securities law restrictions shall be accompanied by or bear an appropriate restrictive legend or stop transfer instruction. Notwithstanding any other provision of this Plan, the acquisition, holding or disposition of Shares acquired pursuant to the Plan shall in all events be subject to compliance with applicable Company policies, including those relating to insider trading, pledging or hedging transactions, minimum post-vesting holding periods and stock ownership guidelines, and to forfeiture or recovery of compensation as provided in Section 18(i).

(d) Other Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay laws of any country or state and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

(e) Governing Law. To the extent that federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Minnesota without regard to its conflicts-of-law principles and shall be construed accordingly.

(f) Severability. If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(g) Code Section 409A. It is intended that all Awards under the Plan will be exempt from, or will comply with, Code Section 409A, and to the maximum extent permitted the Awards the Plan will be limited, construed and interpreted in accordance with this intent. Notwithstanding anything to the contrary in the Plan or any Agreement, with respect to any Award that constitutes a deferral of compensation subject to Code Section 409A:

(1) If any amount is payable under such Award upon a termination of Service, a termination of Service will be deemed to have occurred only at such time as the Participant has experienced a "separation from service" as such term is defined for purposes of Code Section 409A; and

(2) If any amount shall be payable with respect to any such Award as a result of a Participant's "separation from service" at such time as the Participant is a "specified employee" within the meaning of Code Section 409A, then no payment shall be made, except as permitted under Code Section 409A, prior to the first business day after the earlier of (i) the date that is six months after the Participant's separation from Service or (ii) the Participant's death. Unless the Committee has adopted a specified employee identification policy as contemplated by Code Section 409A, specified employees will be identified in accordance with the default provisions specified under Code Section 409A.

Each amount to be paid under an Award or this Plan shall be construed as a separate and distinct payment for purposes of Code Section 409A.

None of the Company, the Committee or any other person involved with the administration of this Plan shall (i) in any way be responsible for ensuring the exemption of any Award from, or compliance by any Award with, the requirements of Code Section 409A, (ii) have any duty or obligation to design or administer the Plan or Awards granted thereunder in a manner that minimizes a Participant's tax liabilities, including the avoidance of any additional tax liabilities under Code Section 409A; or (iii) have any liability to any Participant for any such tax liabilities.

(h) Rule 16b-3. It is intended that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 18(h), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applied to Participants subject to Section 16 of the Exchange Act to the extent permitted by law and in the manner deemed advisable by the Committee.

(i) Forfeiture and Compensation Recovery.

(1) The Committee may specify in an Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture or recovery by the Company upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include termination of Service for Cause, violation of any material Company or Affiliate policy, breach of noncompetition, non-solicitation or confidentiality provisions that apply to the Participant, a determination that the payment of the Award was based on an incorrect determination that financial or other criteria were met or other conduct by the Participant that is detrimental to the business or reputation of the Company or its Affiliates.

(2) Awards and any compensation associated therewith are subject to forfeiture, recovery by the Company or other action pursuant to any compensation recovery policy adopted by the Board or the

Committee at any time, as amended from time to time, which includes but is not limited to any compensation recovery policy adopted by the Board or the Committee including in response to the requirements of Section 10D of the Exchange Act, the SEC's final rules thereunder, and any applicable listing rules or other implementing rules and regulations thereunder, or as otherwise required by law. Any Agreement will be automatically unilaterally amended to comply with any such compensation recovery policy.

**PROTO LABS, INC.
AMENDED AND RESTATED
2022 LONG-TERM INCENTIVE PLAN**

**Restricted Stock Unit Agreement
Grant Notice**

(Non-Employee Director)

Proto Labs, Inc. (the “Company”), pursuant to its Amended and Restated 2022 Long-Term Incentive Plan (the “Plan”), hereby grants to you, the Participant named below, the number of Restricted Stock Units (the “Units”) shown in the table below. This award of Units (the “Award”) is subject to the terms and conditions set forth in this Grant Notice and the Terms and Conditions on the following pages (together, the “Agreement”) and in the Plan document, which is incorporated herein by reference. To the extent any capitalized term used in this Agreement is not defined, it shall have the meaning assigned to it in the Plan as it currently exists or as it is amended in the future.

Name of Participant:	
Number of Restricted Stock Units:	Grant Date:
Vesting Schedule:	

By signing or otherwise authenticating this Grant Notice, you agree to all of the terms and conditions contained in this Agreement and in the Plan. You acknowledge that you have reviewed these documents and that they set forth the entire agreement between you and the Company regarding this Award.

PARTICIPANT

PROTO LABS, INC.

By: _____
Title: _____

**PROTO LABS, INC.
AMENDED AND RESTATED
2022 LONG-TERM INCENTIVE PLAN**

**Restricted Stock Unit Agreement
Terms and Conditions**

1. **Vesting and Forfeiture.**

- (a) The Company hereby grants to you, as of the Grant Date and subject to the terms and conditions of this Agreement and the Plan, an Award of Units in the amount specified in the Grant Notice. Except as otherwise provided in Section 1(b), each Unit will vest in accordance with the vesting schedule set forth in the Grant Notice, subject to your continued Service for the Company or any Affiliate from the Grant Date through the applicable vesting date.
- (b) Vesting of the Units will be fully accelerated (i) upon the termination of your Service to the Company or any Affiliate due to your death or Disability, or (ii) on the date a Change in Control occurs, subject to your continued Service for the Company or any Affiliate from the Grant Date through the date of such Change in Control.
- (c) Except as otherwise expressly provided in this Agreement or the Plan, upon the termination of your Service to the Company or any Affiliate, then this Award shall automatically terminate and all Units subject to this Award that have not yet vested shall be forfeited for no consideration.
- (d) Each Unit that vests will entitle you to receive one Share, subject to the terms and conditions set forth in this Agreement and the Plan.

2. **Nature of Units.** The Units granted pursuant to this Award are bookkeeping entries only and do not provide you with any dividend, voting or other rights of a shareholder of the Company. The Units shall remain forfeitable at all times unless and to the extent the vesting conditions set forth in this Agreement are satisfied.

3. **Settlement of Units.** As soon as practicable after any date on which Units vest, but no later than March 15 of the year following the calendar year in which the vesting date occurs, the Company shall cause to be issued to you (or your beneficiary or personal representative) one Share in payment and settlement of each vested Unit. The Company will pay any original issue or transfer taxes with respect to the issue and transfer of Shares to you pursuant to this Agreement, and all fees and expenses incurred by it in connection therewith. All Shares so issued will be fully paid and nonassessable. Notwithstanding anything to the contrary in this Agreement, the Company will not be required to issue or deliver any Shares prior to the completion of such registration or

other qualification of such Shares under any state or federal law, rule or regulation as the Company may determine to be necessary or desirable.

4. **Transfer of Units**. You may not assign or transfer the Units other than a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan. Following any such transfer, the Units shall continue to be subject to the same terms and conditions that were applicable to the Units immediately prior to such transfer.
5. **Discontinuance of Service**. This Agreement does not give you a right to continued Service with the Company or any Affiliate, and the Company or any such Affiliate may terminate your Service at any time without regard to the effect it may have upon you under this Agreement.
6. **Governing Plan Document**. This Agreement and the Units are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.
7. **Choice of Law**. This Agreement will be interpreted and enforced under the laws of the state of Minnesota (without regard to its conflicts or choice of law principles).
8. **Binding Effect**. This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

By signing or otherwise authenticating the Grant Notice, you agree to all the terms and conditions described above and in the Plan. The Grant Notice may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. Delivery of an executed counterpart of the Grant Notice by facsimile or portable document format (.pdf) attachment to electronic mail shall be effective as delivery of a manually executed counterpart of the Grant Notice.

**PROTO LABS, INC.
AMENDED AND RESTATED
2022 LONG-TERM INCENTIVE PLAN**

**Deferred Stock Unit Agreement
Grant Notice**

(Non-Employee Director)

Proto Labs, Inc. (the “Company”), pursuant to its Amended and Restated 2022 Long-Term Incentive Plan (the “Plan”), hereby grants to you, the Participant named below, the number of Deferred Stock Units (the “Units”) shown in the table below. This award of Units (the “Award”) is subject to the terms and conditions set forth in this Grant Notice and the Terms and Conditions on the following pages (together, the “Agreement”) and in the Plan document, which is incorporated herein by reference. To the extent any capitalized term used in this Agreement is not defined, it shall have the meaning assigned to it in the Plan as it currently exists or as it is amended in the future.

Name of Participant:	
Number of Deferred Stock Units:	Grant Date:
Vesting Schedule:	

By signing or otherwise authenticating this Grant Notice, you agree to all of the terms and conditions contained in this Agreement and in the Plan. You acknowledge that you have reviewed these documents and that they set forth the entire agreement between you and the Company regarding this Award.

PARTICIPANT

PROTO LABS, INC.

By: _____
Title: _____

PROTO LABS, INC.
AMENDED AND RESTATED
2022 LONG-TERM INCENTIVE PLAN

Deferred Stock Unit Agreement
Terms and Conditions

1. **Vesting and Forfeiture.**

- (a) The Company hereby grants to you, as of the Grant Date and subject to the terms and conditions of this Agreement and the Plan, an Award of Units in the amount specified in the Grant Notice. Except as otherwise provided in Section 1(b), each Unit will vest in accordance with the vesting schedule set forth in the Grant Notice, subject to your continued Service for the Company or any Affiliate from the Grant Date through the applicable vesting date.
- (b) Vesting of the Units will be fully accelerated (i) upon the termination of your Service to the Company or any Affiliate due to your death or Disability, or (ii) on the date a Change in Control occurs, subject to your continued Service for the Company or any Affiliate from the Grant Date through the date of such Change in Control.
- (c) Except as otherwise expressly provided in this Agreement or the Plan, upon the termination of your Service to the Company or any Affiliate, then this Award shall automatically terminate and all Units subject to this Award that have not yet vested shall be forfeited for no consideration.
- (d) Each Unit that vests will entitle you to receive one Share, subject to the terms and conditions set forth in this Agreement and the Plan.

2. **Nature of Units.** The Units granted pursuant to this Award are bookkeeping entries only and do not provide you with any dividend, voting or other rights of a shareholder of the Company. The Units shall remain forfeitable at all times unless and to the extent the vesting conditions set forth in this Agreement are satisfied.

3. **Settlement of Units.**

- (a) *Settlement Dates.* The Company shall cause to be issued to you (or your beneficiary or personal representative) one Share in payment and settlement of each vested Unit. All Shares so issued will be fully paid and nonassessable. The issuance of Shares in settlement of vested Units under this Agreement will be made in whole Shares with any fractional shares paid in cash during whichever of the following periods ends first:
 - (i) the month of February following the calendar year of your separation from Service, unless you have elected to defer settlement in accordance with Section 3(b) below;

- (ii) within 90 days of the date of your death or Disability; and
 - (iii) within 30 days of the date of a Change in Control.
- (b) *Settlement Payout Options.* You were given the opportunity to elect to receive Shares upon settlement of the vested Units in a single lump sum or in a series of substantially equal annual payouts of Shares over up to 10 years, beginning during the period established in Section 3(a) and on each anniversary thereafter until paid in full. Your payout election made pursuant to this Section 3(b) was irrevocable and must have been made by executing and submitting the appropriate election form to the Company's Corporate Secretary prior to the to the start of the current calendar year.
- (c) *Death, Disability, or Change in Control During Settlement Period.* Upon your death or Disability or upon a Change in Control prior to or during the period of installments, if elected, set forth in Section 3(b), issuance of any remaining Shares in settlement of your vested Units under this Agreement will be made in a lump sum payment within 90 days in the case of death or Disability, or during 30 days, in the case of a Change in Control, notwithstanding any election to the contrary.
4. **Dividend Equivalents.** If cash dividends are declared and paid by the Company with respect to its Stock, then the Company will credit to your account, as of each dividend payment date, a number of additional Units (the "**Dividend Units**"). The number of Dividend Units so credited as of any dividend payment date will be equal to (a) the total cash dividends you would have received on that dividend payment date if your outstanding Units as of the record date for such dividend payment (including any previously credited Dividend Units) had been actual Shares, divided by (b) the Fair Market Value of a Share on the dividend payment date (with the quotient rounded down to the nearest whole number). Once credited to your account, Dividend Units will be considered Units for all purposes of this Agreement.
5. **Transfer of Units.** You may not assign or transfer the Units other than a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan. Following any such transfer, the Units shall continue to be subject to the same terms and conditions that were applicable to the Units immediately prior to such transfer.
6. **Discontinuance of Service.** This Agreement does not give you a right to continued Service with the Company or any Affiliate, and the Company or any such Affiliate may terminate your Service at any time without regard to the effect it may have upon you under this Agreement.
7. **Governing Plan Document.** This Agreement and the Units are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

8. **Choice of Law.** This Agreement will be interpreted and enforced under the laws of the state of Minnesota (without regard to its conflicts or choice of law principles).
9. **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.
10. **Code Section 409A.** This Award is intended to comply with the applicable requirements of Code Section 409A and shall be limited, construed, and interpreted in accordance with such intent. Any payment in settlement of the Units that is triggered by a separation from Service hereunder will occur only at such time as you have had a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h). Notwithstanding the foregoing, the Company and its Affiliates make no representations that the Units provided under this Agreement are compliant with Code Section 409A and in no event shall the Company or any Affiliate be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by you on account of non-compliance with Code Section 409A.

By signing or otherwise authenticating the Grant Notice, you agree to all the terms and conditions described above and in the Plan. The Grant Notice may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. Delivery of an executed counterpart of the Grant Notice by facsimile or portable document format (.pdf) attachment to electronic mail shall be effective as delivery of a manually executed counterpart of the Grant Notice.

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Robert Bodor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Proto Labs, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2024

By: /s/ Robert Bodor

Robert Bodor
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Schumacher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Proto Labs, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2024

By: /s/ Daniel Schumacher

Daniel Schumacher
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Bodor, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Proto Labs, Inc. on Form 10-Q for the fiscal quarter ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Proto Labs, Inc.

Date: August 2, 2024

By: /s/ Robert Bodor

Name: Robert Bodor

Title: President and Chief Executive Officer

I, Daniel Schumacher, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Proto Labs, Inc. on Form 10-Q for the fiscal quarter ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Proto Labs, Inc.

Date: August 2, 2024

By: /s/ Daniel Schumacher

Name: Daniel Schumacher

Title: Chief Financial Officer