
**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 March 31, 2013

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)

**5540 Pioneer Creek Drive
Maple Plain, Minnesota**
(Address of principal executive offices)

41-1939628
(I.R.S. Employer
Identification No.)

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)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: 25,217,056 shares of Common Stock, par value \$0.001 per share, were outstanding at May 1, 2013.

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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)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 27,929	\$ 36,759
Short-term marketable securities	35,695	25,137
Accounts receivable, net of allowance for doubtful accounts of \$142 and \$154 as of March 31, 2013 and December 31, 2012, respectively	17,468	15,791
Inventory	4,717	4,619
Prepaid expenses and other current assets	4,774	5,364
Income taxes receivable	3,203	1,877
Deferred tax assets	446	609
Total current assets	94,232	90,156
Property and equipment, net	45,629	45,316
Long-term marketable securities	48,877	36,965
Other assets	262	285
Total assets	<u>\$ 189,000</u>	<u>\$ 172,722</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 5,759	\$ 4,758
Accrued compensation	7,468	5,995
Accrued liabilities and other	574	513
Current portion of long-term debt obligations	209	273
Total current liabilities	14,010	11,539
Long-term deferred tax liabilities	3,346	3,346
Long-term debt obligations	287	356
Other long-term liabilities	728	782
Total liabilities	18,371	16,023
Shareholders' equity		
Preferred stock, \$0.001 par value, authorized 10,000,000 shares; issued and outstanding 0 shares as of March 31, 2013 and December 31, 2012, respectively	—	—
Common stock, \$0.001 par value, authorized 150,000,000 shares; issued and outstanding 25,170,856 and 24,803,640 shares as of March 31, 2013 and December 31, 2012, respectively	26	25
Additional paid in capital	153,581	147,032
Retained earnings	18,857	10,570
Accumulated other comprehensive income (loss)	(1,835)	(928)
Total shareholders' equity	170,629	156,699
Total liabilities and shareholders' equity	<u>\$ 189,000</u>	<u>\$ 172,722</u>

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	
	March 31,	
	2013	2012
Statements of Operations:		
Revenue	\$ 37,313	\$ 29,970
Cost of revenue	14,034	12,243
Gross profit	23,279	17,727
Operating expenses		
Marketing and sales	5,263	4,441
Research and development	2,628	1,660
General and administrative	3,994	3,988
Total operating expenses	11,885	10,089
Income from operations	11,394	7,638
Other income (expense), net	3	(577)
Income before income taxes	11,397	7,061
Provision for income taxes	3,110	2,279
Net income	<u>\$ 8,287</u>	<u>\$ 4,782</u>
Net income per share:		
Basic	<u>\$ 0.33</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 0.22</u>
Shares used to compute net income per share:		
Basic	25,014,907	20,934,948
Diluted	25,645,744	22,226,356
Comprehensive income	<u>\$ 7,380</u>	<u>\$ 5,240</u>

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

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

	Three Months Ended	
	March 31,	
	2013	2012
Operating activities		
Net income	\$ 8,287	\$ 4,782
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,734	1,328
Stock-based compensation expense	865	850
Deferred taxes	148	—
Excess tax benefit from stock-based compensation	(4,067)	—
Amortization of held-to-maturity securities	304	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,929)	(3,180)
Inventories	(183)	(100)
Prepaid expenses and other	393	29
Income taxes	2,719	1,991
Accounts payable	1,115	1,344
Accrued liabilities and other	1,759	367
Net cash provided by operating activities	<u>11,145</u>	<u>7,411</u>
Investing activities		
Purchases of property and equipment	(2,548)	(8,264)
Purchases of marketable securities	(41,088)	—
Proceeds from maturities of marketable securities	18,313	250
Net cash used in investing activities	<u>(25,323)</u>	<u>(8,014)</u>
Financing activities		
Proceeds from initial public offering, net of offering costs	—	71,675
Payments on debt	(92)	(94)
Proceeds from exercises of warrants and stock options	1,619	30
Excess tax benefit from stock-based compensation	4,067	—
Net cash provided by financing activities	<u>5,594</u>	<u>71,611</u>
Effect of exchange rate changes on cash and cash equivalents	(246)	536
Net increase (decrease) in cash and cash equivalents	(8,830)	71,544
Cash and cash equivalents, beginning of period	36,759	8,135
Cash and cash equivalents, end of period	<u>\$ 27,929</u>	<u>\$79,679</u>

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

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 — Basis of Presentation

The unaudited interim Consolidated Financial Statements of Proto Labs, Inc. (Proto Labs, 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. These statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's statement 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, 2012 as filed with the Securities and Exchange Commission (SEC) on March 22, 2013.

The accompanying Consolidated Balance Sheet as of December 31, 2012 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 Form 10-Q should be read in conjunction with the Company's Consolidated Financial Statements and Notes included in the Annual Report on Form 10-K filed on March 22, 2013 as referenced above.

Note 2 — Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). This accounting update generally requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, the accounting update requires entities to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendment applies to public and nonpublic companies and is to be applied prospectively. For public entities, the amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted this accounting guidance effective January 1, 2013. The adoption of ASU 2013-02 did not have a material impact on the Company's financial statements.

Note 3 — Net Income per Common Share

Basic net income per share is computed based on the weighted-average number of common shares outstanding. Diluted net income 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 the 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 granted under stock-based compensation plans and shares committed to be purchased under the employee stock purchase plan.

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

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

(in thousands, except share and per share amounts)	Three Months Ended March 31,	
	2013	2012
Net income	\$ 8,287	\$ 4,782
Basic—weighted-average shares outstanding:	25,014,907	20,934,948
Effect of dilutive securities:		
Employee stock options, warrants and other	630,837	1,291,408
Diluted—weighted-average shares outstanding:	<u>25,645,744</u>	<u>22,226,356</u>
Net income per share:		
Basic	<u>\$ 0.33</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 0.22</u>

Note 4 — Fair Value Measurements

Accounting Standards Codification (ASC) 820, *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 which 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 cash consists of bank deposits. The Company's cash equivalents measured at fair value consist of money market mutual funds. The Company determines the fair value of these investments using Level 1 inputs.

A summary of financial assets as of March 31, 2013 and December 31, 2012 measured at fair value on a recurring basis follows:

(in thousands)	March 31, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets:						
Cash and cash equivalents						
Money market mutual fund	\$5,206	\$ —	\$ —	\$16,164	\$ —	\$ —
Total	<u>\$5,206</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$16,164</u>	<u>\$ —</u>	<u>\$ —</u>

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 5 — Marketable Securities

The Company invests in short-term and long-term agency, municipal, corporate, commercial paper and other debt securities. The securities are categorized as held-to-maturity and are recorded at amortized cost. Categorization as held-to-maturity is based on the Company's ability and intent to hold these securities to maturity. Information regarding the Company's short-term and long-term marketable securities as of March 31, 2013 and December 31, 2012 is as follows:

(in thousands)	March 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities	\$ 23,714	\$ 8	\$ (5)	\$23,717
Corporate debt securities	23,767	29	(28)	23,768
Commercial paper	5,493	—	(13)	5,480
U.S. municipal securities	26,901	10	(14)	26,897
Certificates of deposit/time deposits	4,697	8	(1)	4,704
Total marketable securities	<u>\$ 84,572</u>	<u>\$ 55</u>	<u>\$ (61)</u>	<u>\$84,566</u>

(in thousands)	December 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency securities	\$ 23,011	\$ 2	\$ (4)	\$23,009
Corporate debt securities	14,675	18	(14)	14,679
Commercial paper	1,500	—	—	1,500
U.S. municipal securities	17,971	3	(12)	17,962
Certificates of deposit/time deposits	4,945	3	(1)	4,947
Total marketable securities	<u>\$ 62,102</u>	<u>\$ 26</u>	<u>\$ (31)</u>	<u>\$62,097</u>

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

The Company tests for other than temporary losses on a quarterly basis and has considered the unrealized losses indicated above to be temporary in nature. The Company intends to hold the investments to maturity and recover the full principal.

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 March 31, 2013 balance of held-to-maturity debt securities by contractual maturity is shown in the following table at amortized cost. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

(in thousands)	March 31,
	2013
Due in one year or less	<u>\$ 35,695</u>
Due after one year through five years	<u>48,877</u>
Total marketable securities	<u>\$ 84,572</u>

Note 6 — Inventory

Inventory consists primarily of raw materials, which are recorded at the lower of cost or market using the average-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 consists of the following:

	March 31,	December 31,
(in thousands)	2013	2012
Raw materials	<u>\$ 4,393</u>	<u>\$ 4,174</u>
Work in process	<u>425</u>	<u>530</u>
Total Inventory	<u>4,818</u>	<u>4,704</u>
Allowance for obsolescence	<u>(101)</u>	<u>(85)</u>
Inventory, net of allowance	<u>\$ 4,717</u>	<u>\$ 4,619</u>

Note 7 — Stock-Based Compensation

Under the 2012 Long-Term Incentive Plan (2012 Plan), as discussed in the 2012 Annual Report on Form 10-K, the Company has the ability to grant stock options, stock appreciation rights (SARs), restricted stock, stock units, other stock-based awards and cash incentive awards. Awards under the 2012 Plan will 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 2012 Plan generally may not be less than the fair market value of a share of our common stock on the date of the grant.

Employee Stock Purchase Plan

The Company's 2012 Employee Stock Purchase Plan (ESPP), as discussed in the 2012 Annual Report on Form 10-K, allows eligible employees to purchase shares of the Company's common stock 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 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.

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Stock-Based Compensation Expense

Stock-based compensation expense was \$0.9 million for each of the three months ended March 31, 2013 and 2012, respectively.

Stock Options

A summary of stock option activity for the three months ended March 31, 2013 is as follows:

	<u>Stock Options</u>	<u>Weighted-Average Exercise Price</u>
Options outstanding at December 31, 2012	1,691,357	\$ 11.11
Granted	125,325	47.08
Exercised	(351,216)	4.60
Cancelled	(250)	30.58
Options outstanding at March 31, 2013	<u>1,465,216</u>	\$ 15.74
Exercisable at March 31, 2013	<u>491,674</u>	\$ 7.07

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 five-year period beginning on the first anniversary of the grant date, subject to the employee's continuing service to the Company. For directors, options generally become exercisable in full on the first anniversary of the grant date.

The weighted-average grant date fair value of options that were granted for the three months ended March 31, 2013 was \$24.74.

The following table provides the assumptions used in the Black-Scholes pricing model valuation of options:

	<u>Three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Risk-free interest rate	1.27%	1.16%
Expected life (years)	6.50	6.25
Expected volatility	53.54%	53.00%
Expected dividend yield	0%	0%

As of March 31, 2013, there was \$7.7 million of total unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.9 years.

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Employee Stock Purchase Plan

The following table presents the assumptions used to estimate the fair value of the ESPP during the three months ended March 31, 2013 and 2012, respectively:

	<u>Three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Risk-free interest rate	0.13%	0.16%
Expected life (months)	6.0	8.5
Expected volatility	53.14%	53.00%
Expected dividend yield	0%	0%

Note 8 — Accumulated Other Comprehensive Income

Other comprehensive income (loss) is comprised entirely of foreign currency translation adjustments. The following table presents the changes in accumulated other comprehensive income balances during the three months ended March 31, 2013 and 2012, respectively:

(in thousands)	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2013</u>	<u>2012</u>
Foreign currency translation adjustment, net of tax		
Balance at beginning of period	\$ (928)	\$ (738)
Other comprehensive income before reclassifications	(907)	458
Amounts reclassified from accumulated other comprehensive income	—	—
Net current-period other comprehensive income	<u>(907)</u>	<u>458</u>
Balance at end of period	<u>\$ (1,835)</u>	<u>\$ (280)</u>

Note 9 — 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 March 31, 2013 and 2012 the Company recorded an income tax provision of \$3.1 million and \$2.3 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 March 31, 2013 was 27.3 percent compared with 32.3 percent in the same period of the prior year.

The effective income tax rate for the three months ended March 31, 2013 differs from the U.S. federal statutory rate of 35 percent primarily due to the components of income, particularly as it relates to the federal research and development credit. On January 2, 2013, the American Taxpayer Relief Act of 2012 (the Act) was signed into law. Included in the Act was the extension of the research and development credit for years 2012 and 2013. As the Act was enacted during 2013, the federal portion of the 2012 research and development credit was recognized in the first quarter of 2013. As a result, during the three months ended March 31, 2013, the Company recorded a tax benefit of \$0.3 million, which translated to an effective income tax rate reduction of 3.0 percent, related to the federal research and development credit for 2012.

The Company has liabilities related to unrecognized tax benefits totaling \$0.4 million at March, 2013 and December 31, 2012 that, if recognized, would result in a reduction of the Company's effective tax rate. There were no material adjustments to the unrecorded tax benefits during the three months ended March 31, 2012, and the Company does not anticipate that total unrecognized tax benefits will materially change in the next twelve months. 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.

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 10 — Revenue and Geographic Information

The Company's revenue is derived from its Protomold injection molding and Firstcut computer numerical control (CNC) machining product lines. Total revenue by product line is as follows:

(in thousands)	<u>Three Months Ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Revenue:		
Protomold	\$ 26,880	\$ 21,793
First Cut	10,433	8,177
Total revenue	<u>\$ 37,313</u>	<u>\$ 29,970</u>

Revenue to external customers based on the billing location of the end user customer and long-lived assets by geographic region are as follows:

(in thousands)	<u>Three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Revenue:		
United States	\$ 28,148	\$ 22,175
International	9,165	7,795
Total revenue	<u>\$ 37,313</u>	<u>\$ 29,970</u>

(in thousands)	<u>March 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
Long-lived assets:		
United States	\$38,253	\$ 37,869
International	7,376	7,447
Total long-lived assets	<u>\$45,629</u>	<u>\$ 45,316</u>

Proto Labs, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 11 — Twelve-Month Statements of Comprehensive Income

Pursuant to Section 11(A) of the Securities Act of 1933 and Rule 158 promulgated thereunder, the following are unaudited quarterly and twelve-month statements of comprehensive income for the period from April 1, 2012 through March 31, 2013:

(in thousands, except per share amounts)	Three Months Ended				Twelve Months Ended
	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013	March 31, 2013
Consolidated Statements of Comprehensive Income Data:					
Revenue	\$29,951	\$ 32,454	\$ 33,616	\$37,313	\$ 133,334
Cost of revenue	12,239	12,760	12,611	14,034	51,644
Gross profit	17,712	19,694	21,005	23,279	81,690
Operating expenses:					
Marketing and sales	4,557	4,442	4,658	5,263	18,920
Research and development	2,401	2,561	2,515	2,628	10,105
General and administrative	3,288	3,118	3,564	3,994	13,964
Total operating expenses	10,246	10,121	10,737	11,885	42,989
Income from operations	7,466	9,573	10,268	11,394	38,701
Other income (expense), net	173	314	114	3	604
Income before income taxes	7,639	9,887	10,382	11,397	39,305
Provision for income taxes	2,493	3,185	2,987	3,110	11,775
Net income	<u>\$ 5,146</u>	<u>\$ 6,702</u>	<u>\$ 7,395</u>	<u>\$ 8,287</u>	<u>\$ 27,530</u>
Net income per share:					
Basic	<u>\$ 0.22</u>	<u>\$ 0.28</u>	<u>\$ 0.30</u>	<u>\$ 0.33</u>	<u>\$ 1.13</u>
Diluted	<u>\$ 0.20</u>	<u>\$ 0.26</u>	<u>\$ 0.29</u>	<u>\$ 0.32</u>	<u>\$ 1.08</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.

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 which 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 our Annual Report on Form 10-K as filed with the 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 a leading online and technology-enabled manufacturer of quick-turn CNC-machined and injection-molded custom parts for prototyping and short-run production. We provide “Real Parts, Really Fast” to product developers worldwide, who are under increasing pressure to bring their finished products to market faster than their competition. We believe low-volume manufacturing has historically been an underserved market due to the inefficiencies inherent in the quotation, equipment set-up and non-recurring engineering processes required to produce custom parts. Our proprietary technology eliminates most of the time-consuming and expensive skilled labor conventionally required to quote and manufacture parts in low volumes, and our customers conduct nearly all of their business with us over the Internet. We target our services to the millions of product developers who use three-dimensional computer-aided design (3D CAD) software to design products across a diverse range of end-markets. Our primary manufacturing services currently include Firstcut, which is our CNC machining service, and Protomold, which is our plastic injection molding service.

Key Financial Measures and Trends

Revenue

The Company’s operations are comprised of three geographically-based business units in the United States, Europe and Japan. Revenue within each of our business units is derived from our Firstcut and Protomold services. Firstcut revenue consists of sales of CNC-machined custom parts. Protomold revenue consists of sales of custom injection molds and injection-molded parts. 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, offering additional services such as the introduction of our Firstcut service in 2007, expanding internationally such as the opening of our Japanese plant in 2009, improving the usability of our services such as our web-centric applications, and expanding the breadth and scope of our products such as by adding more sizes and materials to our offerings. During the three months ended March 31, 2013, we sold our services to approximately 3,500 customer companies from our existing customer base, an increase of 20% over the same period in 2012, and to approximately 700 new customer companies gained during the three months ended March 31, 2013, which remained relatively consistent with the same period in 2012.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenue consists primarily of raw materials, equipment depreciation, employee salaries, benefits, stock-based compensation, bonuses and overhead allocations associated with the manufacturing process for molds and custom parts. We expect cost of revenue to increase in absolute dollars, but remain relatively constant as a percentage of total revenue.

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 pricing, sales volume and manufacturing costs, the costs associated with increasing production capacity, the mix between domestic and foreign revenue sources and foreign exchange rates.

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Our gross margins vary between geographic markets due primarily to the costs associated with starting new factories and our operating maturity in these markets. We believe that over time and with growth and maturity of our international business, gross margins will be generally consistent through all our markets.

Operating Expenses

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

Our recent growth in operating expenses is mainly due to higher headcounts to support our growth and expansion, and we expect that trend to continue. Our business strategy is to continue to be a leading online and technology-enabled manufacturer of quick-turn CNC machined and injection-molded custom parts for prototyping and short-run production. For us to achieve our goals, we anticipate continued substantial investments in technology and personnel, resulting in increased operating expenses.

Marketing and sales. Marketing and sales expense consists primarily of employee salaries, benefits, commissions, stock-based compensation, bonuses, marketing programs such as print and pay-per-click advertising, trade shows, direct mail 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 programs targeted to increase our customer base.

Research and development. Research and development expense consists primarily of employee salaries, benefits, stock-based compensation, bonuses, depreciation on equipment, outside services and other related overhead. All of our research and development costs have been expensed as incurred. We expect research and development expense to increase in the future as we seek to enhance and expand our service offerings.

General and administrative. General and administrative expense consists primarily of employee salaries, benefits, stock-based compensation, bonuses, professional service fees related to accounting, tax and legal, and other related overhead. We expect general and administrative expense to increase on an absolute basis and as a percentage of revenue as we continue to grow and expand our operations and develop the infrastructure necessary to operate as a public company. These expenses will include increased audit and legal fees, costs of compliance with securities and other regulations, implementation costs for compliance with the provisions of the Sarbanes-Oxley Act, investor relations expense and higher insurance premiums.

Other Income (Expense), net

Other income (expense), net primarily consists of foreign currency-related gains and losses, interest income on cash balances and investments, and interest expense on borrowings. Our foreign currency-related gains and losses will vary depending upon movements in underlying 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. Our interest expense will vary based on borrowings and interest rates.

Provision for Income Taxes

Provision for income taxes is comprised of federal, state, local and foreign taxes based on pre-tax income. We expect income taxes to increase as our taxable income increases and our effective tax rate to remain relatively constant.

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Results of Operations

The following table sets forth a summary of 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 March 31,				Change	
	2013		2012		\$	%
Revenue	\$37,313	100.0%	\$29,970	100.0%	\$7,343	24.5%
Cost of revenue	14,034	37.6	12,243	40.9	1,791	14.6
Gross profit	23,279	62.4	17,727	59.1	5,552	31.3
Operating expenses:						
Marketing and sales	5,263	14.2	4,441	14.8	822	18.5
Research and development	2,628	7.0	1,660	5.5	968	58.3
General and administrative	3,994	10.7	3,988	13.3	6	0.2
Total operating expenses	11,885	31.9	10,089	33.6	1,796	17.8
Income from operations	11,394	30.5	7,638	25.5	3,756	49.2
Other income (expense), net	3	—	(577)	(1.9)	580	100.5
Income before income taxes	11,397	30.5	7,061	23.6	4,336	61.4
Provision for income taxes	3,110	8.3	2,279	7.6	831	36.5
Net income	<u>\$ 8,287</u>	<u>22.2%</u>	<u>\$ 4,782</u>	<u>16.0%</u>	<u>\$3,505</u>	<u>73.3%</u>

Stock-based compensation expense included in the statements of operations data above is as follows:

(dollars in thousands)	Three months ended March 31,	
	2013	2012
Stock options and grants	\$ 776	\$ 797
Employee stock purchase plan	89	53
Total stock-based compensation expense	<u>\$ 865</u>	<u>\$ 850</u>
Cost of revenue	\$ 71	\$ 45
Operating expenses:		
Marketing and sales	150	73
Research and development	173	78
General and administrative	471	654
Total stock-based compensation expense	<u>\$ 865</u>	<u>\$ 850</u>

[Table of Contents](#)**Comparison of Three Months Ended March 31, 2013 and 2012****Revenue**

Revenue by product line and the related changes for the three months ended March 31, 2013 and 2012 were as follows:

(dollars in thousands)	Three Months Ended March 31,				Change	
	2013		2012			
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue						
Protomold	\$26,880	72.0%	\$21,793	72.7%	\$5,087	23.3%
First Cut	10,433	28.0	8,177	27.3	2,256	27.6
Total revenue	<u>\$37,313</u>	<u>100.0%</u>	<u>\$29,970</u>	<u>100.0%</u>	<u>\$7,343</u>	<u>24.5%</u>

Revenue by geographic region, based on the billing location of the end customer, is summarized as follows:

(dollars in thousands)	Three Months Ended March 31,				Change	
	2013		2012			
	\$	% of Total Revenue	\$	% of Total Revenue	\$	%
Revenue						
United States	\$28,148	75.4%	\$22,175	74.0%	\$5,973	26.9%
International	9,165	24.6	7,795	26.0	1,370	17.6
Total revenue	<u>\$37,313</u>	<u>100.0%</u>	<u>\$29,970</u>	<u>100.0%</u>	<u>\$7,343</u>	<u>24.5%</u>

Our revenue increased \$7.3 million, or 24.5%, for the three months ended March 31, 2013 compared with the same period in 2012. This revenue growth was driven by a 26.9% increase in United States revenue, 17.6% increase in international revenue, 23.3% increase in Protomold revenue and 27.6% increase in Firstcut revenue, in each case for the three months ended March 31, 2013 compared with the same period in 2012. Of our revenue growth, approximately \$3.1 million was attributable to sales to approximately 700 new customer companies gained during the three months ended March 31, 2013, and approximately \$4.2 million was attributable to sales to approximately 3,500 existing customer companies.

By geographic region in which we operate, our revenue growth was attributable to approximately \$2.0 million in sales to approximately 425 new customers and approximately \$4.4 million in sales to approximately 2,600 existing customers in the United States; approximately \$0.8 million in sales to approximately 200 new customers and approximately \$0.1 million in sales to approximately 700 existing customers in Europe; and approximately \$0.3 million in sales to approximately 75 new customers offset by a decline of approximately \$0.3 million in sales to approximately 200 existing customers in Japan.

Our revenue increases were primarily driven by increases in sales personnel and marketing activities. Our sales personnel focus on gaining new customer accounts and expanding the depth and breadth into existing customer accounts. Our marketing personnel focus on trade show and marketing activities that have proven to result in the greatest number of customer leads to support sales activity. International revenue was negatively impacted by \$0.3 million in the three months ended March 31, 2013 compared to the same period in 2012 due to strengthening of the United States dollar relative to certain foreign currencies. The effect of pricing changes on revenue was immaterial for the three months ended March 31, 2013 compared to the same period in 2012.

Cost of Revenue, Gross Profit and Gross Margin

Cost of Revenue. Cost of revenue increased \$1.8 million, or 14.6%, for the three months ended March 31, 2013 compared to the same period in 2012, which was slower than the rate of revenue increase of 24.5% for the three months ended March 31, 2013 compared to the same period in 2012. The increase in cost of revenue was due to raw material and production cost increases of \$0.7 million to support increased sales volumes, equipment and facility-related cost increases of \$0.4 million and an increase in direct labor headcount resulting in personnel and related cost increases of \$0.7 million.

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Gross Profit and Gross Margin. Gross profit increased to \$23.3 million, or 62.4% of revenues, for the three months ended March 31, 2013 from \$17.7 million, or 59.1% of revenues, for the three months ended March 31, 2012 due to increases in revenue offset by the cost of revenue as discussed above. Gross margin increased primarily as a result of efficiencies gained through higher equipment utilization and continually refined manufacturing processes as well as a growth rate in order volume that exceeded capacity expansion through capital equipment acquisition.

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

Marketing and Sales. Marketing and sales expense increased \$0.8 million, or 18.5%, for the three months ended March 31, 2013 compared to the same period in 2012 due primarily to an increase in headcount resulting in personnel and related cost increases of \$0.7 million and marketing program cost increases of \$0.1 million. The increase in marketing program costs is the result of our focus and concentration on funding those programs which have proven to be the most effective in growing our business. Marketing and sales expense as a percentage of revenue decreased to 14.2% for the three months ended March 31, 2013 from 14.8% during the same period in 2012, primarily due to the fixed nature of certain marketing and sales costs as well as focus on effective marketing spending as previously discussed.

Research and Development. Our research and development expense increased \$1.0 million, or 58.3%, for the three months ended March 31, 2013 compared to the same period in 2012 due to an increase in headcount resulting in personnel and related cost increases of \$0.4 million, operating cost increases of \$0.2 million and professional services of \$0.4 million for outside development services.

General and Administrative. Our general and administrative expense of \$4.0 million for the three months ended March 31, 2013 was unchanged when compared to the same period in 2012. During the three months ended March 31, 2013, we recorded an increase of \$0.3 million in professional services, which was offset by declines in personnel and related costs of \$0.1 million and stock-based compensation costs of \$0.2 million. The increase in professional service costs is attributable to our becoming a public company during the first quarter of 2012.

Other Income (Expense), net. Other income, net increased \$0.6 million for the three months ended March 31, 2013 compared to the same period in 2012 due to changes in foreign currency rates.

Provision for Income Taxes. Our income tax provision increased by \$0.8 million to \$3.1 million while our effective tax rate decreased by 5.0% to 27.3% for the three months ended March 31, 2013 compared to income tax provision of \$2.3 million and effective tax rate of 32.3% for the three months ended March 31, 2012. The decrease in effective tax rate is primarily attributable to the federal research and development credit. On January 2, 2013, the American Taxpayer Relief Act of 2012 (the Act) was signed into law. Included in the Act was the extension of the research and development credit for years 2012 and 2013. As the Act was enacted during 2013, the impact of the 2012 research and development credit to the federal portion of the effective tax rate was recognized in the first quarter of 2013. As a result, we recorded a tax benefit of \$0.3 million, which translated to an effective income tax rate reduction of 3.0%, related to the research and development credit for 2012. The remaining decrease in effective tax rate was the result of other individually immaterial fluctuations based on the nature of our operations and mix of revenue earned in the domestic and foreign jurisdictions in which we operate.

Liquidity and Capital Resources

Cash Flows

The following table summarizes our cash flows for the three months ended March 31, 2013 and 2012:

(dollars in thousands)	Three Months Ended March 31,	
	2013	2012
Net cash provided by operating activities	\$ 11,145	\$ 7,411
Net cash used in investing activities	(25,323)	(8,014)
Net cash provided by financing activities	5,594	71,611
Effect of exchange rates on cash and cash equivalents	(246)	536
Net increase (decrease) in cash and cash equivalents	<u>\$ (8,830)</u>	<u>\$ 71,544</u>

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Sources of Liquidity

Historically we have financed our operations and capital expenditures through operations, lease financing and the use of bank loans. In February 2012, we completed the IPO of our common stock, which provided us with \$71.5 million of cash, net of underwriting discounts and commissions and offering expenses payable by us. We had cash and cash equivalents of \$27.9 million as of March 31, 2013, a decrease of \$8.8 million from December 31, 2012. The decrease in our cash was primarily due to investment activity described in Note 5 to the consolidated financial statements.

Cash Flows from Operating Activities

Cash provided by operating activities was \$11.1 million for the three months ended March 31, 2013. We had net income of \$8.3 million, which included non-cash charges consisting of \$1.7 million in depreciation, \$0.9 million in stock-based compensation, \$0.3 million in amortization of held-to-maturity securities and \$0.1 million in deferred taxes, offset by \$4.1 million of excess tax benefit on stock-based compensation. Other sources of cash in operating activities totaled \$3.9 million, which included an increase in income taxes payable of \$2.7 million, increase in accrued liabilities and other of \$1.8 million, increase in accounts payable of \$1.1 million and a decrease in prepaid expenses and other of \$0.4 million, which were partially offset by an increase in accounts receivable of \$1.9 million and increase in inventories of \$0.2 million. These operating cash increases in accounts receivable, accounts payable, inventories and other reflect increases in revenue and the growth of our business.

Cash generated by operating activities was \$7.4 million for the three months ended March 31, 2012. We had net income of \$4.8 million, which included non-cash charges consisting of \$1.3 million in depreciation and \$0.9 million in stock-based compensation. Other sources of cash in operating activities totaled \$0.4 million, which included an increase in income taxes payable of \$2.0 million, an increase in accounts payable of \$1.3 million and an increase in accrued liabilities of \$0.4 million, which were partially offset by an increase in accounts receivable of \$3.2 million and an increase in inventory of \$0.1 million. The increase in accounts receivable reflects increases in revenue.

Cash Flows from Investing Activities

Cash used in investing activities was \$25.3 million for the three months ended March 31, 2013, consisting of \$2.5 million for the purchase of property and equipment and \$41.1 million for the purchase of marketable securities, which were partially offset by \$18.3 million in proceeds from the maturities and call redemptions of marketable securities.

Cash used in investing activities was \$8.0 million for the three months ended March 31, 2012, consisting of \$8.3 million for the purchase of property and equipment and a net reduction of short-term investments of \$0.3 million.

Cash Flows from Financing Activities

Cash provided by financing activities was \$5.6 million for the three months ended March 31, 2013, consisting of excess tax benefit on stock-based compensation of \$4.1 million and \$1.6 million in proceeds from exercises of stock options, reduced by \$0.1 million for payments of debt.

Cash generated in financing activities was \$71.6 million for the three months ended March 31, 2012, consisting primarily of \$71.7 million from the IPO of our common stock reduced by \$0.1 million for payments of debt.

Off-Balance Sheet Arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

Critical Accounting Policies and Use of 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). Our most significant accounting policies are discussed herein.

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying Notes. Our estimates and assumptions, including those related to revenue recognition, the allowance for doubtful accounts, inventory valuation, stock-based compensation and income taxes, are updated as appropriate, which in most cases is quarterly.

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We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Management has discussed the development, selection and disclosure of these estimates with the audit committee of our board of directors. Our actual results may differ significantly from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with ASC 605, *Revenue Recognition* (ASC 605), which states that revenue is realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price to the buyer is fixed or determinable, and (4) collectability is reasonably assured.

Revenue is generally recognized upon transfer of title and risk of loss, which for us is upon shipment of parts.

Allowance for Doubtful Accounts

We carry our accounts receivable at their invoiced amount less an allowance for doubtful accounts. On a periodic basis, we evaluate our accounts receivable and establish an allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions taking into account the history of write-offs and collections. A receivable is considered past due if payment has not been received within the period agreed upon in the invoice. Accounts receivable are written off after all collection efforts have been exhausted. To date, we have not incurred any write-offs of accounts receivable significantly different than the amounts reserved. We believe appropriate reserves have been established, but they may not be indicative of future write-offs. Our allowance for doubtful accounts as of March 31, 2013 and December 31, 2012 was \$0.1 million and \$0.2 million, respectively. Our allowance for doubtful accounts has decreased as a percentage of accounts receivable due to improvements in account aging driven by stronger credit policies.

We also record a provision for estimated product returns and allowances in the period in which the related revenue is recorded. This provision against current gross revenue is based principally on historical rates of sales returns.

Inventory Valuation and Inventory Reserves

Inventory consists primarily of raw materials, which are recorded at the lower of cost or market, using the average-cost method, which approximates first-in, first-out, or FIFO, cost. We periodically review our inventory for slow-moving, damaged and discontinued items and provide reserves to reduce such items identified to their recoverable amounts. Our inventory allowance for obsolescence was \$0.1 million as of each of March 31, 2013 and December 31, 2012.

Stock-Based Compensation

We determine our stock-based compensation in accordance with ASC 718, *Compensation—Stock Compensation* (ASC 718), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and non-employee directors based on the grant date fair value of the award.

Determining the appropriate fair value model and calculating the fair value of stock option grants requires the input of highly subjective assumptions. We use the Black-Scholes option pricing model to value our stock option awards. Stock-based compensation expense is significant to our consolidated financial statements and is calculated using our best estimates, which involve inherent uncertainties and the application of management's judgment. Significant estimates include our expected term, stock price volatility and forfeiture rates. If different estimates and assumptions had been used, our common stock valuations could be significantly different and related stock-based compensation expense may be materially impacted.

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The Black-Scholes option pricing model requires inputs such as the risk-free interest rate, expected term, expected volatility and expected dividend yield. We base the risk-free interest rate that we use in the Black-Scholes option pricing model on zero coupon U.S. Treasury instruments with maturities similar to the expected term of the award being valued. The expected term represents the weighted-average period that our stock options are expected to be outstanding. The expected term is based on the observed and expected time to post-vesting exercise of options by employees and non-employee directors and considers the impact of post-vesting award forfeitures. Because we operated as a private company with a limited market for our stock from inception to the completion of our IPO in February 2012, we estimate the volatility of our common stock based on volatility of a peer group of comparable publicly traded companies for which historical information is available. We have never paid and do not anticipate paying any cash dividends in the foreseeable future and, therefore, we use an expected dividend yield of zero in the option pricing model. In order to properly attribute compensation expense, we are required to estimate pre-vesting forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest. If our actual forfeiture rate is materially different from our estimate, stock-based compensation expense could be significantly different from what has been recorded.

We allocate stock-based compensation expense on a straight-line basis over the requisite service period.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes* (ASC 740). Under this method, the Company determines tax assets and liabilities based upon the differences between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. The tax consequences of most events recognized in the current year's financial statements are included in determining income taxes currently payable. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities and equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax basis of assets or liabilities and their reported amounts in the financial statements. Because we assume that the reported amounts of assets and liabilities will be recovered and settled, respectively, a difference between the tax basis of an asset or liability and its reported amount in the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or the reported amounts of the assets are recovered, giving rise to a deferred tax asset or liability.

ASC 740 also clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements. Additionally, ASC 740 provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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 and expenses, assets and liabilities that are denominated in foreign currencies. A number of our employees are located in Europe and Japan. Therefore, a portion of our payrolls and operating expenses are paid and incurred in the British Pound, Euro and Yen. Our operating results and cash flows are adversely impacted when the U.S. dollar depreciates relative to other foreign currencies. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk. Foreign currency risk can be quantified by estimating the change in cash flows resulting from a hypothetical 10% adverse change in foreign exchange rates. We believe such a change would not have a material impact on our results of operations.

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

There have been no material changes from the risk factors we previously disclosed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 6. Exhibits

The following documents are filed as part of this report:

Exhibit Number	Description of Exhibit
3.1 ⁽¹⁾	Third Amended and Restated Articles of Incorporation of Proto Labs, Inc.
3.2 ⁽²⁾	Amended and Restated By-Laws of Proto Labs, Inc.
10.1 ⁽³⁾	Form of U.S. Severance Agreement
10.2	Form of UK Severance Agreement
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**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

⁽¹⁾ Previously filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1/A (File No. 333-175745), filed with the Commission on February 13, 2012, and incorporated by reference herein.

⁽²⁾ Previously filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1/A (File No. 333-175745), filed with the Commission on February 13, 2012, and incorporated by reference herein.

⁽³⁾ Previously filed as Exhibit 99.1 to the Company's Form 8-K, filed with the Commission on March 1, 2013, and incorporated by reference herein.

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

** Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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.

Date: May 8, 2013

Proto Labs, Inc.

/s/ Bradley A. Cleveland

Bradley A. Cleveland
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 8, 2013

/s/ John R. Judd

John R. Judd
Chief Financial Officer
(Principal Financial Officer)

SEVERANCE AGREEMENT

This SEVERANCE AGREEMENT (the "**Agreement**") is entered into as of **March 15, 2013** (the "**Effective Date**") by and between **PROTO LABS LIMITED**, a company registered in England and Wales with company number 05366160 (the "**Company**"), and **JOHN TUMELTY** ("**Executive**"), an individual residing in England, UK.

RECITALS

A. Executive is employed by the Company under an Offer Letter dated 29 June 2005 (the "**Offer Letter**").

B. Executive is also party to an Employee Non-Disclosure and Inventions Assignment Agreement with Proto Labs, Inc., parent company of Proto Labs Limited, dated March 15, 2013 (the "**Non-Disclosure Agreement**") attached as Exhibit A to this Agreement.

C. Executive and Proto Labs, Inc. are parties to a Proto Labs, Inc. Non-Competition Agreement dated July 29, 2008 (the "**Non-Competition Agreement**") attached as Exhibit B to this Agreement.

D. Executive and Proto Labs, Inc. are parties to **Option Agreements dated: December 21, 2010; May 7, 2012; February 15, 2013** (collectively, the "**Option Agreements**"), each of which provides Executive with an option to purchase a certain number of shares of Proto Labs, Inc.'s stock ("**Shares**") pursuant to the applicable Option Agreement and Proto Labs, Inc.'s 2000 and 2012 Long-Term Incentive Plan (the "**Plan**").

E. It is desirable and in the best interests of the Company, its affiliates and their respective shareholders to continue to obtain the benefits of Executive's services and attention to the affairs of the Company and its affiliates and to identify certain severance payments and benefits in the event that Executive is separated from employment with the Company under certain identified circumstances.

F. For the reasons set forth above, the Company and Executive desire to enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, the Company and Executive, intending to be legally bound, hereby agree as follows:

AGREEMENTS

1. Term. The term of this Agreement shall commence on the Effective Date and expire on December 31, 2015 (the "**Expiration Date**"), unless Executive's employment is terminated at an earlier date in accordance with Section 4 hereof and/or the Offer Letter. The period between the Effective Date and the Expiration Date is referred to herein as the "**Initial Term**." Effective as of the Expiration Date and each successive one year anniversary of the Effective Date (each an "**Anniversary Date**"), the term shall be automatically extended until the subsequent Anniversary Date (each a "**Renewal Term**") unless either party gives written notice of non-renewal to the other party at least sixty (60) days prior to the Anniversary Date on which this Agreement would otherwise be automatically extended that such party elects not to extend the term. The Initial Term, together with any Renewal Terms, is the "**Term**." If Executive remains employed by the Company after the Term, then Executive shall no longer be entitled to any severance payments or benefits under this Agreement and any severance rights Executive may have shall be governed by the Offer Letter, any other terms and conditions applicable to Executive's employment and other relevant employment legislation.

2. Non-Disclosure and Non-Competition. Executive acknowledges entering into the Non-Disclosure Agreement and the Non-Competition Agreement and hereby reaffirms Executive's commitments and obligations under the Non-Disclosure Agreement and the Non-Competition Agreement. Nothing in this Agreement is intended to modify, amend, cancel or supersede the Non-Disclosure Agreement or the Non-Competition Agreement in any manner.

3. Offer Letter. Executive acknowledges entering into the Offer Letter and hereby reaffirms Executive's commitments and obligations under the Offer Letter. Although this Agreement is supplemental to the Offer Letter, the severance payments and benefits in Section 5 of this Agreement will not be payable unless Executive signs the compromise agreement referred to in Section 5.A. below. If Executive does not sign a compromise agreement in accordance with Section 5.A., he will not be entitled to any of the severance payments or benefits in Section 5 of this Agreement and the terms of the Offer Letter will continue to apply.

4. Termination.

A. Voluntary Termination. Except as provided in Sections 4.B. and C., each party hereto may terminate Executive's employment in accordance with the notice provisions in the Offer Letter. The Company reserves the right in its absolute discretion to (i) require Executive to work his notice period; (ii) pay Executive his basic salary only in lieu of part or all of his notice period and/or (iii) require Executive to stay on 'garden leave' during all or part of his notice period on such terms as it deems appropriate, including requiring him to stay away from clients, customers and employees of the Company and its affiliates during such period.

(i) If Executive resigns without Good Reason, then the Company shall have no further liability to Executive for any payment, compensation or benefit whatsoever, other than payment of Executive's accrued but unpaid salary and benefits through the date of Executive's termination.

(ii) If Executive's employment is terminated by the Company for Cause, then the Company shall have no further liability to Executive for any payment, compensation or benefit whatsoever, other than payment of Executive's accrued but unpaid salary and benefits through the date of Executive's termination.

(iii) If the Company terminates Executive's employment without Cause (as such term is defined in Section 4.C.) or Executive resigns for Good Reason (as set forth in Section 4.D.), and subject to Executive's compliance with Section 5 of this Agreement (including entering into a compromise agreement in a form acceptable to the Company within the timescale required below) and with the Non-Disclosure Agreement and the Non-Competition Agreement, Offer Letter and any other terms and conditions to which Executive is subject, then Executive shall be entitled to severance payments and benefits as described in and pursuant to the terms and conditions of Section 5 of this Agreement.

B. By Death. Executive's employment shall be terminated automatically upon the death of Executive. The Company's total liability in such event shall be limited to payment of Executive's accrued but unpaid salary and benefits through the date of Executive's death and no severance payments or benefits will be due to Executive under this Agreement.

C. For Cause. Notwithstanding the terms of the Offer Letter, the Company may terminate Executive's employment immediately without notice upon the occurrence of any one of the following events (each of which shall constitute a "**Cause**"):

(i) Executive's failure or refusal to perform satisfactorily the duties reasonably required of Executive by the Company;

(ii) Executive's material violation of any law, rule, regulation, court order or regulatory directive (other than traffic violations, misdemeanors or other minor offenses);

(iii) Executive's material breach of the Non-Disclosure Agreement, the Non-Competition Agreement, Offer Letter, any other terms and conditions of employment or any Company code of conduct;

(iv) Executive engaging in any act or practice that involves personal dishonesty on the part of Executive or demonstrates a willful and continuing disregard for the best interests of the Company or its affiliates; or

(v) While performing corporate duties and responsibilities, Executive 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.

D. Good Reason. Executive's resignation will be considered to be with "**Good Reason**" if, following the occurrence of one or more of the events listed below, Executive (1) provides written notice to the Company's Board of Directors (the "**Board**") of the event(s) constituting Good Reason within sixty (60) days after the first occurrence of such event(s), (2) the Company fails to reasonably cure such event(s) within thirty (30) days after receiving such notice, and (3) Executive serves notice of resignation (or leave immediately without serving his notice period) under the Offer Letter not later than thirty (30) days after the end of the period in which the Board may cure the event(s). The following events will give rise to Good Reason, unless Executive has consented thereto in writing or unless such events are permitted under the Offer Letter or other applicable English law:

(i) a material reduction in Executive's base salary, target incentive bonus or annual option grants, other than a reduction that is part of and proportionally consistent with a broad-based reduction in base compensation, target incentive bonus or annual option grants applicable to Company employees generally;

(ii) a material diminution in Executive's authority, duties or responsibilities;

(iii) a change in the location of the Company facility or office where Executive is based to a location more than fifty (50) miles from the Company facility or office where Executive is based as of the Effective Date; or

(iv) a material breach by the Company of any terms or conditions of this Agreement or any other agreement between Executive and the Company, which breach has not been cured by the Company within fifteen (15) days after written notice thereof to the Company from Executive.

5. Severance

A. Severance Payments. If the Company voluntarily terminates Executive's employment without Cause (and other than as a result of Executive's death) or Executive resigns for Good Reason, and Executive's termination date occurs during the Term, and provided that Executive signs a compromise agreement under which he waives and releases all claims (whether under contract, statute, common law, regulation, in equity or otherwise) against the Company and its affiliates in a form prescribed by and acceptable to the Company (the "**Release**") as described below within thirty (30) days of the date on which notice of termination of employment is served by either party (save where Executive resigns for Good Reason without notice, in which case such agreement must be signed within thirty (30) days of the date on which Executive resigns without notice), and provided further that Executive is in compliance with Executive's continuing obligations to the Company and its affiliates (including but not limited to those in the Offer letter Non-Disclosure Agreement and the Non-Competition Agreement), then:

(i) **Base Salary Cash Severance.** The Company shall pay to Executive an amount equal to one times Executive's annualized base salary as of Executive's termination date (or, if Executive's resignation is for Good Reason because the Company materially reduced Executive's base compensation, one times Executive's annualized base salary as of immediately before such material reduction), less deductions and withholdings required by law, payable in substantially equal installments in accordance with the Company's regular payroll practices over the 12-month period immediately following Executive's termination date; provided, however that any installments that otherwise would be payable within the 60-day period immediately following the termination date shall be delayed and payable with the installment that is payable on the Company's first payroll date following the 60th day after Executive's termination date. For the avoidance of doubt, this payment is inclusive of, supersedes and is in satisfaction of any right or claim Executive may have to pay or benefits during his notice period under the Offer Letter or otherwise.

(ii) **Pro Rata Bonus Payment.** The Company shall pay to Executive a pro rata cash incentive bonus amount calculated by multiplying the annual cash incentive bonus Executive would have received under the Company's annual cash incentive bonus plan for the calendar year in which the termination date occurs assuming Executive would have remained employed through the date Executive would have otherwise earned an annual cash incentive bonus under such year's annual cash incentive bonus plan by a fraction, the numerator of which is the number of days Executive was employed by the Company during the calendar year in which Executive's termination date occurs through and including Executive's termination date and the denominator is 365, less deductions and withholdings required by law, payable in a lump sum at the same time as other eligible employees under the Company's annual cash incentive bonus plan for such calendar year are paid their bonuses under such Company's annual cash incentive bonus plan for such calendar year, but in any event no later than March 15 of the calendar year immediately following the calendar year in which Executive's termination date occurs. For the avoidance of doubt, this payment is inclusive of, supersedes and is in satisfaction of any right or claim Executive may have to a bonus under the Offer Letter or otherwise.

(iii) Benefits Continuation. If Executive was enrolled in a private medical insurance scheme by the Company immediately prior to Executive's termination date, and if Executive requests prior to termination of his employment to continue such coverage the Company will, subject always to the insurance scheme rules and subject to coverage being available at rates acceptable to the Company, continue to pay to the insurance provider the premiums due for Executive and his dependents (to the extent they were covered immediately prior to termination of his employment) for the first twelve (12) months following the termination date. For the avoidance of doubt, this benefit is inclusive of, supersedes and is in satisfaction of any entitlement Executive may have to benefits under the Offer Letter or otherwise.

(iv) Vesting of Options. Notwithstanding any language in the Option Agreements or any other stock option agreement under the Plan or in the Plan to the contrary, if Executive has an unvested option to purchase Shares under any Option Agreement or any other stock option agreement under the Plan addressing Executive's option to purchase Shares, then a pro rata portion of any such option scheduled to vest on the next anniversary of the grant date for such option will vest as of Executive's termination date. The number of additional Shares that Executive will have the option to purchase as a result of such pro rata vesting will be determined by multiplying the total number of additional Shares Executive would have had the option to purchase as of the next anniversary of the grant date for such option assuming Executive would have remained employed through such anniversary by a fraction, the numerator of which is the number of days Executive was employed by the Company during the then-current option vesting year through and including Executive's termination date and the denominator is 365.

6. Remedies. Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court of law or equity of competent jurisdiction in accordance with Section 11 for injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

7. Assignment. This Agreement shall not be assignable, in whole or in part, by either party without the written consent of the other party, except that the Company may, without the consent of Executive, assign or delegate all or any portion of its rights and obligations under this Agreement to any affiliate or to any corporation or other business entity (i) with which the Company may merge or consolidate, or (ii) to which the Company may sell or transfer all or substantially all of its assets or capital stock. Any such current or future successor to which any right or obligation has been assigned or delegated shall be deemed to be the "Company" for purposes of such rights or obligations of this Agreement. The rights and obligations under this Agreement shall inure to the benefit of and shall be binding upon the heirs, legatees, administrators and personal representatives of Executive and upon the successors, affiliates, representatives and assigns of the Company.

8. Severability and Reformation. The parties hereto intend all provisions of this Agreement to be enforced to the fullest extent permitted by law, and are intended to be limited to the extent necessary so that they will not render this Agreement illegal, invalid, or unenforceable under present or future law. If any provision of this Agreement or any application thereof shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of such provision shall be fully severable, and this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof and the remaining provisions shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance.

9. Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, cable, telegram, facsimile transmission or telex to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice:

If to the Company:

Proto Labs Limited, c/o Proto Labs, Inc.
5540 Pioneer Creek Drive
Maple Plain, MN 55359
Attention: President and CEO

If to the Executive:

John Tumelty
The Hollies
Bagley
Ellesmere
Shropshire
SY12 9BZ, England

Notice so given shall, in the case of notice so given by mail, be deemed to be given and received on the fourth calendar day after posting, in the case of notice so given by overnight delivery service, on the date of actual delivery and, in the case of notice so given by cable, telegram, facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery.

10. Further Actions. Whether or not specifically required under the terms of this Agreement, each party hereto shall execute and deliver such documents and take such further actions as shall be necessary in order for such party to perform all of the party's obligations specified herein or reasonably implied from the terms hereof.

11. Governing Law and Venue. This Agreement is to be governed by and construed in accordance with the laws of England and Wales without giving effect to any choice or conflict of law provision or rule that would cause the application of laws of any jurisdiction other than England and Wales. The parties agree that any dispute concerning this Agreement is to be brought in the courts of England and Wales and consent to jurisdiction and venue therein.

12. Entire Agreement. This Agreement, the Offer Letter, any terms and conditions of employment, the Non-Disclosure Agreement, the Non-Competition Agreement, and the Option Agreements and the Plan contain the entire understanding and agreement between the parties, except as otherwise specified herein, and supersede any other agreement between Executive and the Company, whether oral or in writing, with respect to the same subject matter; *provided, however*, that nothing herein shall supersede or replace any Proto Labs, Inc. equity-based compensation plans and any award agreements with the Executive entered into thereunder.

13. No Waiver. No term or condition of this Agreement shall be deemed to have been waived, except by a statement in writing signed by the party against whom enforcement of the waiver is sought. Any written waiver shall not be deemed a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived, and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

14. Counterparts. This Agreement may be executed in counterparts, with the same effect as if both parties had signed the same document. All such counterparts shall be deemed an original, shall be construed together and shall constitute one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

THE COMPANY:

PROTO LABS LIMITED

By _____

EXECUTIVE:

JOHN TUMELTY

**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, Bradley A. Cleveland, 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; and

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: May 8, 2013

By: /s/ Bradley A. Cleveland

Bradley A. Cleveland
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, John R. Judd, 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; and

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: May 8, 2013

By: /s/ John R. Judd

John R. Judd
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, Bradley A. Cleveland, 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 March 31, 2013 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: May 8, 2013

By: /s/ Bradley A. Cleveland
Name: Bradley A. Cleveland
Title: President and Chief Executive Officer

I, John R. Judd, 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 March 31, 2013 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: May 8, 2013

By: /s/ John R. Judd
Name: John R. Judd
Title: Chief Financial Officer