

ExOne Co  
Form 10-Q  
November 13, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 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 September 30, 2014

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 No. 001-35806

**The ExOne Company**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**46-1684608**  
(I.R.S. Employer  
Identification No.)

**127 Industry Boulevard**

**North Huntingdon, Pennsylvania 15642**

(Address of principal executive offices) (Zip Code)

**(724) 863-9663**

(Registrant's telephone number, including area code)

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 (§232.405 of this chapter) 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 Securities Exchange Act of 1934). Yes  No

As of November 13, 2014, 14,442,804 shares of common stock, par value \$0.01, were outstanding.

**IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY**

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an emerging growth company as defined in the Jumpstart our Business Startups Act of 2012 (the JOBS Act ). An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies.

As an emerging growth company:

we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;

we are permitted to provide less extensive disclosure about our executive compensation arrangements;

we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and

we have elected to use an extended transition period for complying with new or revised accounting standards.

We will continue to operate under these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenues, qualify as a large accelerated filer under the Securities Exchange Act of 1934, as amended (which requires us to have more than \$700 million in market value of our common stock held by non-affiliates), or issue more than \$1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some, but not all, of these reduced burdens.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## The ExOne Company and Subsidiaries

## Condensed Statement of Consolidated Operations and Comprehensive (Loss) Income (Unaudited)

(in thousands, except per-share amounts)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenue</b>	\$ 9,649	\$ 11,621	\$ 28,135	\$ 28,785
<b>Cost of sales</b>	7,162	6,370	21,533	16,515
<b>Gross profit</b>	2,487	5,251	6,602	12,270
<b>Operating expenses</b>				
Research and development	2,261	1,286	6,014	3,418
Selling, general and administrative	4,593	3,703	15,061	11,179
	6,854	4,989	21,075	14,597
<b>(Loss) income from operations</b>	(4,367)	262	(14,473)	(2,327)
<b>Other (income) expense</b>				
Interest expense	32	46	106	326
Other (income) expense - net	(55)	1	(210)	(63)
	(23)	47	(104)	263
<b>(Loss) income before income taxes</b>	(4,344)	215	(14,369)	(2,590)
<b>Provision for income taxes</b>	107	439	274	530
<b>Net loss</b>	(4,451)	(224)	(14,643)	(3,120)
<b>Less: Net income attributable to noncontrolling interests</b>				138
<b>Net loss attributable to ExOne</b>	\$ (4,451)	\$ (224)	\$ (14,643)	\$ (3,258)
<b>Net loss attributable to ExOne per common share:</b>				
Basic	\$ (0.31)	\$ (0.02)	\$ (1.02)	\$ (0.28)
Diluted	\$ (0.31)	\$ (0.02)	\$ (1.02)	\$ (0.28)
<b>Comprehensive (loss) income:</b>				
Net loss	\$ (4,451)	\$ (224)	\$ (14,643)	\$ (3,258)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(4,656)	470	(4,838)	(287)

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<b>Comprehensive (loss) income</b>	(9,107)	246	(19,481)	(3,545)
Less: Comprehensive income (loss) attributable to noncontrolling interests				
<b>Comprehensive (loss) income attributable to ExOne</b>	<b>\$ (9,107)</b>	<b>\$ 246</b>	<b>\$ (19,481)</b>	<b>\$ (3,545)</b>

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

**The ExOne Company and Subsidiaries**  
**Condensed Consolidated Balance Sheet (Unaudited)**  
(in thousands, except share amounts)

	September 30, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 45,206	\$ 98,445
Accounts receivable - net of allowance of \$202 (2014) and \$63 (2013)	14,178	9,042
Inventories - net	18,161	12,764
Prepaid expenses and other current assets	3,049	3,297
<b>Total current assets</b>	<b>80,594</b>	<b>123,548</b>
Property and equipment - net	52,968	32,772
Goodwill	6,820	
Other noncurrent assets	954	2,115
<b>Total assets</b>	<b>\$ 141,336</b>	<b>\$ 158,435</b>
<b>Liabilities</b>		
Current liabilities:		
Current portion of long-term debt	\$ 131	\$ 127
Current portion of capital and financing leases	427	549
Accounts payable	3,038	1,748
Accrued expenses and other current liabilities	5,590	5,394
Deferred revenue and customer prepayments	1,179	916
<b>Total current liabilities</b>	<b>10,365</b>	<b>8,734</b>
Long-term debt - net of current portion	1,983	2,082
Capital and financing leases - net of current portion	232	475
Other noncurrent liabilities	276	444
<b>Total liabilities</b>	<b>12,856</b>	<b>11,735</b>
Contingencies and commitments		
<b>Stockholders equity</b>		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 14,416,970 (2014) and 14,387,608 (2013) shares issued and outstanding	144	144
Additional paid-in capital	154,624	153,363
Accumulated deficit	(21,098)	(6,455)
Accumulated other comprehensive loss	(5,190)	(352)
<b>Total stockholders equity</b>	<b>128,480</b>	<b>146,700</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 141,336</b>	<b>\$ 158,435</b>

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



## The ExOne Company and Subsidiaries

## Condensed Statement of Consolidated Cash Flows (Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2014	2013
<b>Operating activities</b>		
Net loss	\$ (14,643)	\$ (3,120)
Adjustments to reconcile net loss to cash used for operations:		
Depreciation and amortization	2,583	1,685
Equity-based compensation	943	511
Provision for bad debts	145	72
Changes in fair value of contingent consideration	(194)	
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency translation adjustments:		
Increase in accounts receivable	(4,411)	(268)
Increase in inventories	(9,328)	(6,128)
Decrease (increase) in prepaid expenses and other assets	257	(2,723)
Increase (decrease) in accounts payable	603	(75)
(Decrease) increase in accrued expenses and other liabilities	(846)	187
Increase (decrease) in deferred revenue and customer prepayments	296	(3,592)
<b>Cash used for operating activities</b>	<b>(24,595)</b>	<b>(13,451)</b>
<b>Investing activities</b>		
Capital expenditures	(18,586)	(9,822)
Acquisitions, net of cash acquired of \$201	(9,230)	
Cash effect of deconsolidation of noncontrolling interests in variable interest entities		(2,327)
<b>Cash used for investing activities</b>	<b>(27,816)</b>	<b>(12,149)</b>
<b>Financing activities</b>		
Net proceeds from issuance of common stock - initial public offering		91,083
Net proceeds from issuance of common stock - secondary public offering		65,201
Proceeds from exercise of employee stock options	318	
Net change in line of credit borrowings		(528)
Net change in demand note payable to member		(9,885)
Payments on long-term debt	(433)	(5,457)
Payments on capital and financing leases	(411)	(2,031)
Payment of preferred stock dividends		(456)
<b>Cash (used for) provided by financing activities</b>	<b>(526)</b>	<b>137,927</b>
Effect of exchange rate changes on cash and cash equivalents	(302)	15
Net change in cash and cash equivalents	(53,239)	112,342
Cash and cash equivalents at beginning of period	98,445	2,802
<b>Cash and cash equivalents at end of period</b>	<b>\$ 45,206</b>	<b>\$ 115,144</b>
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Net assets acquired through acquisitions, net of cash acquired of \$201	\$ 9,685	\$



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Noncash consideration for acquisitions	\$ (455)	\$
Property and equipment included in accounts payable	\$ 682	\$
Property and equipment acquired through financing arrangements	\$ 89	\$ 282
Transfer of inventories to property and equipment for internal use	\$ 3,935	\$ 3,338
Transfer of internally developed 3D printing machines from property and equipment to inventories for sale	\$ 332	\$ 261
Conversion of preferred stock dividends payable and accrued interest to principal amounts due under the demand note payable to member	\$	\$ 1,219
Noncash effect of Reorganization of The Ex One Company, LLC with and into The ExOne Company	\$	\$ (2,371)
Noncash effect of deconsolidation of noncontrolling interests in variable interest entities	\$	\$ (397)

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

## The ExOne Company and Subsidiaries

## Condensed Statement of Changes in Consolidated Stockholders / Members Equity (Unaudited)

(in thousands)

	ExOne unitholders / stockholders						Accumulated other comprehensive loss	Noncontrolling interests	Total members / stockholders equity	
	Preferred units	Common units	Members deficit	Preferred stock	Common stock	Additional paid-in capital				
<b>Balance at December 31, 2012</b>	\$ 18,984	\$ 10,000	\$ (31,355)	\$	\$	\$	\$	\$ (174)	\$ 2,586	\$ 41
Reorganization of The Ex One Company, LLC with and into The ExOne Company	(18,984)	(10,000)	31,355	190	58	(2,619)				
Preferred stock dividends						(152)				(152)
Conversion of preferred stock to common stock				(190)	20	170				
Initial public offering of common stock in The ExOne Company, net of issuance costs					55	90,316				90,371
Secondary public offering of common stock in The ExOne Company, net of issuance costs					11	64,937				64,948
Net loss							(3,258)		138	(3,120)
Other comprehensive loss								(287)		(287)
Equity-based compensation						511				511
Deconsolidation of noncontrolling interests in variable interest entities									(2,724)	(2,724)
<b>Balance at September 30, 2013</b>	\$	\$	\$	\$	\$ 144	\$ 153,163	\$ (3,258)	\$ (461)	\$	\$ 149,588
<b>Balance at December 31, 2013</b>	\$	\$	\$	\$	\$ 144	\$ 153,363	\$ (6,455)	\$ (352)	\$	\$ 146,700
Net loss							(14,643)			(14,643)
Other comprehensive loss								(4,838)		(4,838)
Equity-based compensation						943				943
Common stock issued from equity incentive plan						318				318
<b>Balance at September 30, 2014</b>	\$	\$	\$	\$	\$ 144	\$ 154,624	\$ (21,098)	\$ (5,190)	\$	\$ 128,480

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

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**The ExOne Company and Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**

**(dollars in thousands, except per-share and share amounts)**

**Note 1. Basis of Presentation and Principles of Consolidation**

***Organization***

The ExOne Company ( ExOne ) is a corporation organized under the laws of the state of Delaware. ExOne was formed on January 1, 2013, when The Ex One Company, LLC, a Delaware limited liability company, merged with and into a Delaware corporation, which survived and changed its name to The ExOne Company (the Reorganization ). As a result of the Reorganization, The Ex One Company, LLC became ExOne, the common and preferred interest holders of The Ex One Company, LLC became holders of common stock and preferred stock, respectively, of ExOne, and the subsidiaries of The Ex One Company, LLC became the subsidiaries of ExOne.

On February 6, 2013, the Company commenced an initial public offering of 6,095,000 shares of its common stock at a price to the public of \$18.00 per share, of which 5,483,333 shares were sold by the Company and 611,667 were sold by a selling stockholder (including consideration of the exercise of the underwriters over-allotment option). Following completion of the offering on February 12, 2013, the Company received net proceeds of approximately \$91,996 (net of underwriting commissions).

On September 9, 2013, the Company commenced a secondary public offering of 3,054,400 shares of its common stock at a price to the public of \$62.00 per share, of which 1,106,000 shares were sold by the Company and 1,948,400 were sold by selling stockholders (including consideration of the exercise of the underwriters over-allotment option). Following completion of the offering on September 13, 2013, the Company received net proceeds of approximately \$65,315 (net of underwriting commissions).

The condensed consolidated financial statements include the accounts of ExOne, its wholly-owned subsidiaries, ExOne Americas LLC (United States), ExOne GmbH (Germany), ExOne KK (Japan); effective in August 2013, ExOne Property GmbH (Germany); effective in March 2014, MWT Gesellschaft für Industrielle Mikrowellentechnik mbH (Germany); effective in May 2014, ExOne Italy S.r.l (Italy) and through March 27, 2013 (see further description below) two variable interest entities ( VIEs ) in which ExOne was identified as the primary beneficiary, Lone Star Metal Fabrication, LLC ( Lone Star ) and Troy Metal Fabricating, LLC ( TMF ). Collectively, the consolidated group is referred to as the Company .

At December 31, 2012, and through March 27, 2013, ExOne leased property and equipment from Lone Star and TMF. ExOne did not have an ownership interest in Lone Star or TMF and the assets of Lone Star and TMF could only be used to settle obligations of Lone Star and TMF. ExOne was identified as the primary beneficiary of Lone Star and TMF in accordance with guidance issued by the Financial Accounting Standards Board ( FASB ) on the consolidation of VIEs, as ExOne guaranteed certain long-term debt of both Lone Star and TMF and governed these entities through common ownership. FASB guidance requires certain VIEs to be consolidated when an enterprise has the power to direct the activities of the VIE that most significantly impact VIE economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The condensed consolidated financial statements therefore include the accounts of Lone Star and TMF through March 27, 2013.

On March 27, 2013, ExOne Americas LLC acquired certain assets, including property and equipment (principally land, buildings and machinery and equipment) held by the two VIEs, and assumed all outstanding debt of such VIEs. Following this transaction, neither of the entities continued to meet the definition of a VIE with respect to ExOne, and as a result, the remaining assets and liabilities of both entities were deconsolidated following the transaction.

The condensed consolidated financial statements of the Company are unaudited. The condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the results of operations, financial position and cash flows of the Company. All material intercompany transactions and balances have been eliminated in consolidation. The results reported in these condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year. The December 31, 2013 condensed consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ( GAAP ). This Quarterly Report on Form 10-Q should be read in connection with the Company s Annual Report on Form 10-K for the year ended December 31, 2013, which includes all disclosures required by GAAP.



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**Liquidity**

The Company has incurred net losses of approximately \$6,317, \$9,688, and \$7,617 for the years ended December 31, 2013, 2012 and 2011, respectively. As shown in the accompanying condensed consolidated financial statements, the Company incurred a net loss of approximately \$4,451 and \$14,643 for the quarter and nine months ended September 30, 2014, respectively. Prior to Reorganization the Company operated as a limited liability company and was substantially supported by the continued financial support provided by its majority member. As noted above, in connection with the completion of its initial public offering and secondary public offering in 2013, the Company received unrestricted net proceeds from the sale of its common stock of approximately \$157,311. Management believes that the unrestricted net proceeds obtained through these transactions will be sufficient to support the Company's operations through November 14, 2015.

**Recently Adopted Accounting Guidance**

On January 1, 2014, the Company adopted FASB guidance changing the requirements of the Company's reporting of amounts reclassified out of accumulated other comprehensive income (loss). These changes require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income (loss) on the respective line items in net income (loss) if the amount being reclassified is required to be reclassified in its entirety to net income (loss). For other amounts that are not required to be reclassified in their entirety to net income (loss) in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. These requirements are to be applied to each component of accumulated other comprehensive income (loss). Other than additional disclosure requirements, the adoption of these changes did not have a significant impact on the condensed consolidated financial statements of the Company.

**Recently Issued Accounting Guidance**

In May 2014, the FASB issued changes to the recognition of revenue from contracts with customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. These changes become effective for the Company on January 1, 2018, or January 1, 2017, in the event that the Company no longer qualifies as an emerging growth company in accordance with the JOBS Act. Management is currently evaluating the potential impact of these changes on the consolidated financial statements of the Company.

In August 2014, the FASB issued changes to the disclosure of uncertainties about an entity's ability to continue as a going concern. Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Because there is no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related note disclosures, there is diversity in practice whether, when, and how an entity discloses the relevant conditions and events in its financial statements. As a result, these changes require an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued. Substantial doubt is defined as an indication that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt, (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, (iii) management's plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management's plans that are intended to at least mitigate the conditions or events that raise substantial doubt, and (iv) if the latter in (iii) is disclosed, an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern. These changes become effective for the Company on December 31, 2016. Subsequent to adoption, this guidance will need to be applied by management at the end of each annual period and interim period therein to determine what, if any, impact there will be on the consolidated financial statements of the Company in a given reporting period.

**Note 2. Accumulated Other Comprehensive Loss**

The following table summarizes changes in the components of accumulated other comprehensive loss:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Foreign currency translation adjustments				
Balance at beginning of period	\$ (534)	\$ (931)	\$ (352)	\$ (174)
Other comprehensive (loss) income	(4,656)	470	(4,838)	(287)
Balance at end of period	\$ (5,190)	\$ (461)	\$ (5,190)	\$ (461)

Foreign currency translation adjustments consist of (i) the effect of translation of functional currency financial statements (denominated in the Euro and Japanese Yen) to the reporting currency of the Company (US Dollar) and (ii) intercompany transactions between subsidiaries for which settlement is not planned or anticipated.

There were no tax impacts related to income tax rate changes and no amounts were reclassified to earnings for either of the periods presented.

**Note 3. Earnings Per Share**

The Company presents basic and diluted loss per common share amounts. Basic loss per share is calculated by dividing net loss available to ExOne common shareholders by the weighted average number of common shares outstanding during the applicable period. Diluted loss per share is calculated by dividing net loss available to ExOne common shareholders by the weighted average number of common shares and common equivalent shares outstanding during the applicable period.

The weighted average shares outstanding for the quarter and nine months ended September 30, 2013, include (i) the exchange of common units in the former limited liability company for common shares in the Company on a 0.58:1.00 basis in connection with the Reorganization of the Company on January 1, 2013, (ii) the issuance of 5,483,333 common shares in connection with the commencement of the initial public offering of the Company on February 6, 2013, (iii) the conversion of preferred shares to common shares in the Company on a 9.5:1.0 basis in connection with the closing of the initial public offering of the Company on February 12, 2013, and (iv) the issuance of 1,106,000 common shares in connection with the commencement of the secondary public offering of the Company on September 9, 2013. The weighted average shares outstanding for the quarter and nine months ended September 30, 2014, additionally include (i) the annual vesting of 10,000 shares of restricted stock on March 11, 2014, (ii) the issuance of 5,000 shares of common stock to the independent members of the Board of Directors in the form of a stock bonus award on March 20, 2014 and (iii) the issuance of 17,696 shares of common stock during the nine months ended September 30, 2014, as a result of employee exercises of incentive stock options.

As ExOne incurred a net loss during each of the quarters and nine months ended September 30, 2014 and 2013, basic average shares outstanding and diluted average shares outstanding were the same because the effect of potential shares of common stock, including incentive stock options (153,970 2014 and 175,000 2013) and unvested restricted stock issued (25,834 2014 and 20,000 2013), was anti-dilutive.

The information used to compute basic and diluted net loss attributable to ExOne per common share was as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss attributable to ExOne	\$ (4,451)	\$ (224)	\$ (14,643)	\$ (3,258)
Less: Preferred stock dividends declared				(152)
Net loss available to ExOne common shareholders	\$ (4,451)	\$ (224)	\$ (14,643)	\$ (3,410)
	14,416,970	13,534,065	14,408,871	12,316,096

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Weighted average shares outstanding (basic and diluted)

Net loss attributable to ExOne per common share:

Basic	\$	(0.31)	\$	(0.02)	\$	(1.02)	\$	(0.28)
Diluted	\$	(0.31)	\$	(0.02)	\$	(1.02)	\$	(0.28)



**Note 4. Acquisitions****MAM**

On March 3, 2014, the Company, through its wholly-owned subsidiary ExOne Americas LLC, entered into an Asset Purchase Agreement to acquire (i) substantially all the assets of Machin-A-Mation Corporation ( MAM ), a specialty machine shop located in Chesterfield, Michigan, and (ii) the real property on which the MAM business is located from Metal Links, LLC, a Michigan limited liability company. The total purchase price was approximately \$4,995, which includes approximately \$4,618 in cash and \$377 in contingent consideration in the form of a two-year earn-out provision. The two-year earn-out provision is based on a combination of achievement of revenues and gross profit for the acquired business for which the Company assumed full achievement of both targets for each of the respective years on the date of acquisition.

The following table summarizes the preliminary allocation of purchase price:

Accounts receivable	\$ 222
Inventories	246
Prepaid expenses and other current assets	15
Property and equipment	2,491
Intangible assets	200
Goodwill	2,261
<b>Total assets</b>	<b>5,435</b>
Accounts payable	49
Accrued expenses and other current liabilities	53
Long-term debt	338
<b>Total liabilities</b>	<b>440</b>
<b>Total purchase price</b>	<b>\$ 4,995</b>

The Company estimates that all of the goodwill associated with the MAM acquisition will be deductible for income tax purposes. Goodwill associated with the MAM acquisition relates principally to the complementary nature of the assets acquired in relation to the existing business held by the Company in Troy, Michigan, the combination of which is expected to further enhance the post-printing capabilities of ExOne. As the Company operates as a single operating segment (also a single reporting unit), there is no further assignment of goodwill to a reportable segment.

Intangible assets identified by the Company as part of its preliminary allocation of purchase price include customer relationships which are to be amortized over a period of five years. Intangible assets are included in other noncurrent assets in the condensed consolidated balance sheet. The Company is in the process of evaluating the MAM acquisition for identification of additional intangible assets in finalizing its purchase price allocation.

During the quarter and nine months ended September 30, 2014, the Company recorded measurement period adjustments associated with revisions to initial estimates of net working capital (accounts receivable, inventories and accounts payable) of approximately \$9 (increase to net working capital) and \$41 (decrease to net working capital), respectively, resulting in a corresponding (decrease) increase to goodwill. The Company expects to complete its purchase accounting exercise by the end of 2014.

Immediately following the completion of the MAM acquisition, the Company elected to repay all of the long-term debt assumed as part of the transaction. Prepayment penalties associated with this repayment were not significant and no gain or loss was recorded by the Company.

The Company incurred total acquisition-related expenses of approximately \$88 in connection with the MAM acquisition, of which \$76 was recognized by the Company during the nine months ended September 30, 2014 (the remainder recognized during the year ended December 31, 2013). Acquisition-related expenses are expensed as incurred in accordance with FASB guidance associated with business combination activities, with amounts included in selling, general and administrative expenses in the condensed statement of consolidated operations and comprehensive (loss) income.

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The results of operations and pro forma effects of the MAM acquisition are not significant relative to the Company and as such, have been omitted.

**MWT**

On March 6, 2014, the Company, through its wholly-owned subsidiary ExOne GmbH, entered into a Purchase and Assignment Contract to acquire all of the shares of MWT - Gesellschaft für Industrielle Mikrowellentechnik mbH ( MWT ), a pioneer in industrial-grade microwaves with design and manufacturing experience based in Elz, Germany. The total purchase price was approximately 3,557 (\$4,891), which includes approximately 3,500 (\$4,813) in cash and approximately 57 (\$78) in other net liabilities settled at the date of acquisition.

The following table summarizes the preliminary allocation of purchase price:

Cash and cash equivalents	\$ 201
Accounts receivable	1
Inventories	525
Prepaid expenses and other current assets	29
Property and equipment	25
Goodwill	4,842
<b>Total assets</b>	<b>5,623</b>
Accounts payable	127
Accrued expenses and other current liabilities	605
<b>Total liabilities</b>	<b>732</b>
<b>Total purchase price</b>	<b>\$ 4,891</b>

None of the goodwill associated with the MWT acquisition will be deductible for income tax purposes. Goodwill associated with the MWT acquisition relates principally to the complementary nature of the industrial microwave technologies acquired in relation to the existing business held by the Company in Augsburg, Germany, the combination of which is expected to further enhance the post-printing capabilities of ExOne. As the Company operates as a single operating segment (also a single reporting unit), there is no further assignment of goodwill to a reportable segment.

During the quarter and nine months ended September 30, 2014, the Company recorded measurement period adjustments associated with revisions to initial estimates of net working capital (inventories and accounts payable) of approximately \$46 (decrease to net working capital) and \$52 (decrease to net working capital), respectively, resulting in a corresponding increase to goodwill during the period. In addition, the Company is in the process of evaluating the MWT acquisition for identification of intangible assets in finalizing its purchase price allocation. The Company expects to complete its purchase accounting exercise by the end of 2014.

The Company incurred total acquisition-related expenses of approximately \$143 in connection with the MWT acquisition, of which \$138 was recognized by the Company during the nine months ended September 30, 2014 (the remainder recognized during the year ended December 31, 2013). Acquisition-related expenses are expensed as incurred in accordance with FASB guidance associated with business combination activities, with amounts included in selling, general and administrative expenses in the condensed statement of consolidated operations and comprehensive (loss) income.

The results of operations and pro forma effects of the MWT acquisition are not significant relative to the Company and as such, have been omitted.

**Goodwill**

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of acquired entities. Goodwill is not amortized; instead, it is reviewed for impairment annually or more frequently if indicators of impairment exist (a triggering event) or if a decision is made to sell or exit a business. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, negative developments in equity and credit markets, adverse changes in the markets in which an entity operates, increases in input costs that have a negative effect on earnings and cash flows, or a trend of negative or declining cash flows, among others.



Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. The Company operates as both a single operating segment and reporting unit.

In reviewing goodwill for impairment, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (greater than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform a two-step quantitative impairment test (described below), otherwise no further analysis is required however, it will continue to be evaluated at least annually as described above. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The ultimate outcome of the goodwill impairment review for a reporting unit should be the same whether an entity chooses to perform the qualitative assessment or proceeds directly to the two-step quantitative impairment test.

Under the qualitative assessment, various events and circumstances (or factors) that would affect the estimated fair value of a reporting unit are identified (similar to impairment indicators above). These factors are then classified by the type of impact they would have on the estimated fair value using positive, neutral, and adverse categories based on current business conditions. Additionally, an assessment of the level of impact that a particular factor would have on the estimated fair value is determined using high, medium, and low weighting.

Under the two-step quantitative impairment test, the evaluation of impairment involves comparing the current fair value of a reporting unit to its carrying value, including goodwill (step 1). The Company plans to use both the market approach and income approach to estimate the fair value of its reporting unit when testing for impairment. The market approach includes consideration of (i) current trading multiples of comparable entities, (ii) market pricing from comparable merger and acquisition transactions and (iii) the Company's existing market capitalization along with consideration of a control premium (as a single reporting unit entity). The income approach includes consideration of present value techniques, principally the use of a discounted cash flow model. The development of fair value under both approaches requires the use of significant assumptions and estimates by management.

In the event the estimated fair value of a reporting unit is less than the carrying value (step 1), additional analysis would be required (step 2). The additional analysis (step 2) would compare the carrying amount of the reporting unit's goodwill with the implied fair value of that goodwill, which may involve the use of valuation experts. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value amounts assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized, which could significantly and adversely impact reported results of operations.

The Company plans to complete its initial annual test of impairment related to goodwill during its fourth fiscal quarter absent indicators (a trigger event) requiring an earlier test to be performed. There were no such indicators identified during the quarter or nine months ended September 30, 2014.

The following table details the changes in the carrying value of goodwill:

Balance at December 31, 2013	\$
Acquisition of businesses	7,196
Foreign currency translation adjustments	(376)
Balance at September 30, 2014	\$ 6,820

#### ***Contingent Consideration***

The Company records contingent consideration resulting from a business combination at its fair value on the date of acquisition. Each reporting period thereafter, the Company revalues these obligations and records increases or decreases in their fair value as a charge (credit) to selling, general and administrative costs within the condensed statement of consolidated operations and comprehensive (loss) income. Changes in the fair value of contingent consideration obligations can result from adjustments to (i) forecast revenues, profitability or a combination thereto or (ii) discount rates. These fair value measurements represent Level 3 measurements, as they are based on significant unobservable inputs.

During the quarter and nine months ended September 30, 2014, the Company recorded changes in the fair value of contingent consideration issued in connection with the MAM acquisition of approximately \$3 (an increase to other noncurrent liabilities) and \$194 (a reduction to accrued expenses and other current liabilities of approximately \$200 and an increase to other noncurrent liabilities of \$6), with a corresponding amount recorded to selling, general and administrative expenses. Changes in contingent consideration recorded by the Company during the quarter ended September 30, 2014 are based on the impact of discounting future cash payments on the associated liabilities. Changes in contingent consideration recorded by the Company during the nine months ended September 30, 2014 are based on (i) revisions of estimates of revenue and gross profit for MAM for the period from acquisition (March 3, 2014) through December 31, 2014, and (ii) the impact of discounting future cash payments on the associated liabilities.

#### *Acquisition of Net Assets of VIEs*

On March 27, 2013, ExOne Americas LLC acquired certain assets, including property and equipment (principally land, buildings and machinery and equipment) held by two VIEs of the Company, TMF and Lone Star, and assumed all outstanding debt of such VIEs.

Payments of approximately \$1,900 and \$200 were made to TMF and Lone Star, respectively, including a return of capital to the entities of approximately \$1,400. As the parties subject to this transaction were determined to be under common control, property and equipment acquired in the transaction were recorded at their net carrying value on the date of acquisition (approximately \$5,400) similar to a pooling-of-interests. As the VIEs were consolidated by the Company in previous periods, no material differences exist due to the change in reporting entity, and as such, no restatement of prior period financial statements on a combined basis is considered necessary. There was no gain or loss or goodwill generated as a result of this transaction, as the total purchase price was equal to the net book value of assets at the VIE level (previously consolidated by the Company). Simultaneous with the completion of this transaction, the Company also repaid all of the outstanding debt assumed from the VIEs, resulting in a payment of approximately \$4,700. Subsequent to this transaction, neither TMF or Lone Star continued to meet the definition of a VIE with respect to ExOne, and as a result, the remaining assets and liabilities of both entities were deconsolidated following the transaction, resulting in a reduction to equity (through noncontrolling interest) of approximately \$2,724.

#### **Note 5. Inventories**

Inventories consist of the following:

	September 30, 2014	December 31, 2013
Raw materials and components	\$ 9,849	\$ 6,253
Work in process	7,966	5,957
Finished goods	346	554
	\$ 18,161	\$ 12,764

Raw materials and components consist of consumable materials and component parts associated with 3D printing machine and micromachinery manufacturing and support activities. Work in process consists of 3D printing machines and micromachinery, subassemblies and other products in varying stages of completion. Finished goods consist of 3D printing machines and micromachinery and other products prepared for delivery in accordance with customer specifications.

At September 30, 2014 and December 31, 2013, the allowance for slow-moving and obsolete inventories was approximately \$731 and \$750, respectively, and has been reflected as a reduction to inventories (principally raw materials and components).

#### **Note 6. Line of Credit**

The Company has a line of credit and security agreement with a German bank collateralized by certain assets of the Company for approximately \$1,600 ( 1,300). Of the total amount available under this facility, approximately \$600 ( 500) is available for short-term borrowings or cash advances (overdrafts) with the additional \$1,000 ( 800) available for additional bank transactions requiring security (i.e. bank guarantees, letters of credit, etc.). Interest rates were 2.33%, 6.20% and 1.75% for short-term borrowings, overdrafts and transactions requiring security, respectively, at September 30, 2014. There is no commitment fee associated with this agreement. At September 30, 2014 and December 31, 2013, there were no outstanding



short-term borrowings or overdrafts on the line of credit. At September 30, 2014 and December 31, 2013, the Company had transactions guaranteed by the security agreement of approximately \$1,908 ( 1,504) and \$982 ( 713), respectively. Included in the transactions guaranteed by the security agreement at September 30, 2014, were approximately \$989 ( 780) requiring compensating cash balances held by the Company with the same financial institution.

#### **Note 7. Contingencies and Commitments**

The Company and its subsidiaries are subject to various litigation, claims, and proceedings which have been or may be instituted or asserted from time to time in the ordinary course of business. Management does not believe that the outcome of any pending or threatened matters will have a material adverse effect, individually or in the aggregate, on the financial position, results of operations or cash flows of the Company.

#### **Note 8. Income Taxes**

The provision for income taxes for the quarter and nine months ended September 30, 2014 was \$107 and \$274, respectively. The provision for income taxes for the quarter and nine months ended September 30, 2013 was \$439 and \$530, respectively. The Company has completed a discrete period computation of its provision for income taxes for each of the periods presented. Discrete period computation is as a result of (i) jurisdictions with losses before income taxes for which no tax benefit can be recognized and (ii) an inability to generate reliable estimates for results in certain jurisdictions as a result of inconsistencies in generating net operating profits (losses) in those jurisdictions.

The effective tax rate for the quarter and nine months ended September 30, 2014 was 2.5% (provision on a loss) and 1.9% (provision on a loss), respectively. The effective tax rate for the quarter and nine months ended September 30, 2013 was 204.2% (provision on income) and 20.5% (provision on a loss), respectively. The effective tax rate differs from the U.S. federal statutory rate of 34.0% for each of the periods presented primarily due to net changes in valuation allowances for the periods.

The Company has provided a valuation allowance for its net deferred tax assets as a result of the Company not generating consistent net operating profits in jurisdictions with which it operates. As such, any benefit from deferred taxes in either quarterly period has been fully offset by changes in the valuation allowance for net deferred tax assets. The Company continues to assess its future taxable income by jurisdiction based on (i) recent historical operating results (ii) the expected timing of reversal of temporary differences (iii) various tax planning strategies that the Company may be able to enact in future periods (iv) the impact of potential operating changes on the business and (v) forecast results from operations in future periods based on available information at the end of each reporting period. To the extent that the Company is able to reach the conclusion that deferred tax assets are realizable based on any combination of the above factors, a reversal of existing valuation allowances may occur.

The Company has a liability for uncertain tax positions related to certain capitalized expenses and intercompany transactions. At September 30, 2014 and December 31, 2013, the liability for uncertain tax positions was approximately \$708 and \$768, respectively, and is included in accrued expenses and other current liabilities in the condensed consolidated balance sheet. In addition, at September 30, 2014, the Company had a liability for uncertain tax positions related to its ExOne GmbH (Germany) and ExOne KK (Japan) subsidiaries of approximately \$260 and \$94, respectively, which were fully offset against net operating loss carryforwards of the the respective subsidiaries. At December 31, 2013, the Company had a liability for uncertain tax positions related to its ExOne KK (Japan) subsidiary of approximately \$93, which was fully offset against net operating loss carryforwards of this subsidiary.

#### **Note 9. Equity-Based Compensation**

On January 24, 2013, the Board of Directors of the Company adopted the 2013 Equity Incentive Plan (the Plan ). In connection with the adoption of the Plan, 500,000 shares of common stock were reserved for issuance pursuant to the Plan, with automatic increases in such reserve available each year annually on January 1 from 2014 through 2023 equal to the lesser of (i) 3.0% of the total outstanding shares of common stock as of December 31 of the immediately preceding year or (ii) a number of shares of common stock determined by the Board of Directors, provided that the maximum number of shares authorized under the Plan will not exceed 1,992,242 shares, subject to certain adjustments.

On January 2, 2014, the Board of Directors authorized the award of 7,500 shares of restricted stock under the Plan to three executives of the Company. The awards vest in one-third increments on the first, second and third anniversaries of the grant date, respectively.



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On March 20, 2014, the Board of Directors authorized the award of 5,000 shares of restricted stock under the Plan to an executive of the Company. This award vests in one-third increments on the first, second and third anniversaries of the grant date, respectively.

Also on March 20, 2014, the Board of Directors separately authorized the award of 5,000 shares of common stock in the form of a stock bonus award to the independent members of the Board of Directors. The stock bonus awards vested immediately upon issuance.

The following table summarizes the total equity-based compensation expense recognized for all ISOs, restricted stock and stock bonus awards:

	Quarter Ended, September 30		Nine Months Ended, September 30	
	2014	2013	2014	2013
Equity-based compensation expense recognized:				
ISOs	\$ 156	\$ 161	\$ 475	\$ 418
Restricted stock	94	39	271	93
Stock bonus awards			197	
<b>Total equity-based compensation expense before income taxes</b>	<b>\$ 250</b>	<b>\$ 200</b>	<b>\$ 943</b>	<b>\$ 511</b>
Benefit for income taxes*				
<b>Total equity-based compensation expense net of income taxes</b>	<b>\$ 250</b>	<b>\$ 200</b>	<b>\$ 943</b>	<b>\$ 511</b>

\* The benefit for income taxes from equity-based compensation for each of the periods presented has been determined to be \$0 based on a full valuation allowance against net deferred tax assets. In the absence of a full valuation allowance, the tax benefit derived from equity-based compensation would be approximately \$53 and \$222 for the quarter and nine months ended September 30, 2014, respectively, and \$34 and \$85 for the quarter and nine months ended September 30, 2013, respectively.

At September 30, 2014, total future compensation expense related to unvested awards yet to be recognized by the Company was approximately \$844 for ISOs and \$729 for restricted stock awards. Total future compensation expense related to unvested awards yet to be recognized by the Company is expected to be recognized over a weighted-average remaining vesting period of approximately 1.7 years.

The activity for ISOs for the nine months ended September 30, 2014, was as follows:

	Number of ISOs	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	173,333	\$ 18.00	\$ 11.03
ISOs granted		\$	\$
ISOs exercised	(17,696)	\$ 18.00	\$ 11.03
ISOs forfeited	(1,667)	\$	\$
<b>Outstanding at September 30, 2014</b>	<b>153,970</b>	<b>\$ 18.00</b>	<b>\$ 11.03</b>
ISOs exercisable	40,637	\$ 18.00	\$ 11.03
ISOs expected to vest	104,975	\$ 18.00	\$ 11.03

At September 30, 2014, the aggregate intrinsic value of ISOs exercisable and ISOs expected to vest was approximately \$117 and \$303, respectively. The weighted average remaining contractual term of ISOs both exercisable and expected to vest at September 30, 2014, was approximately 8.4 years. ISOs with an aggregate intrinsic value of approximately \$306 were exercised by employees during the quarter ended March 31, 2014, resulting in proceeds to the Company from the exercise of stock options of approximately \$318. The Company received no income tax benefit related to these exercises. There were no other exercises during any other period in 2014 or 2013.



The activity for restricted stock awards for the nine months ended September 30, 2014, was as follows:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	20,000	\$ 23.26
Restricted shares granted	12,500	\$ 53.28
Restricted shares vested*	(6,666)	\$ 23.26
Restricted shares forfeited		\$
Outstanding at September 30, 2014	25,834	\$ 37.78
Restricted shares expected to vest	25,834	\$ 37.78

\* Restricted shares vesting during the nine months ended September 30, 2014, had a fair value of approximately \$282.

**Note 10. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1**      Observable inputs such as quoted prices in active markets for identical investments that the Company has the ability to access.
- Level 2**      Inputs include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly;
  - Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3**      Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The Company is required to disclose its estimate of the fair value of material financial instruments, including those recorded as assets or liabilities in its consolidated financial statements, in accordance with GAAP.

The following table sets forth the fair value of the Company's liabilities measured on a recurring basis by level:

	Level	September 30, 2014	December 31, 2013
<b>Accrued expenses and other current liabilities:</b>			
MAM contingent consideration	3	\$	\$
<b>Other noncurrent liabilities</b>			
MAM contingent consideration	3	\$ 183	\$

The fair value of contingent consideration associated with the MAM acquisition is determined by using certain forecasts of future profitability of MAM (an unobservable input). The valuation technique utilized by the Company with respect to this instrument is a discounted cash flow model, principally based on the assumption of achievement of the profitability targets stipulated in the earn-out provision. Future expected payments have been discounted using a market interest rate assumption.

Terms of the earn-out provision require minimum achievement of revenues and gross profit for the year ended December 31 as follows:

	2014*	2015
Revenue	\$ 2,490	\$ 3,500
Gross profit	\$ 623	\$ 875

\* For 2014, targets are representative of revenues and gross profit for the period from the date of acquisition (March 3, 2014) through December 31, 2014.

During the quarter and nine months ended September 30, 2014, the Company recorded changes in the fair value of contingent consideration issued in connection with the MAM acquisition of approximately \$3 (an increase to other noncurrent liabilities) and \$194 (a reduction to accrued expenses and other current liabilities of approximately \$200 and an increase to other noncurrent liabilities of \$6), with a corresponding amount recorded to selling, general and administrative expenses. Changes in contingent consideration recorded by the Company during the quarter ended September 30, 2014 are based on the impact of discounting future cash payments on the associated liabilities. Changes in contingent consideration recorded by the Company during the nine months ended September 30, 2014 are based on (i) revisions of estimates of revenue and gross profit for MAM for the period from acquisition (March 3, 2014) through December 31, 2014, and (ii) the impact of discounting future cash payments on the associated liabilities.

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The following table sets forth a summary of changes in the fair value of the Company's Level 3 financial instruments:

	Quarter Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Beginning balance	\$ 180	\$	\$	\$
Purchases				
Sales				
Issuances			377	
Settlements				
Realized (gains) losses			(200)	
Unrealized (gains) losses	3		6	
Transfers into Level 3				
Transfers out of Level 3				
Ending balance	\$ 183	\$	\$ 183	\$

The carrying values and fair values of other financial instruments (assets and liabilities) not required to be recorded at fair value were as follows:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 45,206	\$ 45,206	\$ 98,445	\$ 98,445
Current portion of long-term debt	\$ 131	\$ 131	\$ 127	\$ 127
Current portion of capital and financing leases	\$ 427	\$ 427	\$ 549	\$ 549
Long-term debt - net of current portion	\$ 1,983	\$ 2,040	\$ 2,082	\$ 1,666
Capital and financing leases - net of current portion	\$ 232	\$ 232	\$ 475	\$ 475

The carrying amounts of cash and cash equivalents, current portion of long-term debt and current portion of capital and financing leases approximate fair value due to their short-term maturities. Cash and cash equivalents are classified in Level 1; current portion of long-term debt, current portion of capital and financing leases, long-term debt net of current portion and capital and financing leases net of current portion are classified in Level 2.

### Note 11. Customer Concentrations

During the quarter and nine months ended September 30, 2014 and 2013, the Company conducted a significant portion of its business with a limited number of customers. For the quarter and nine months ended September 30, 2014, the Company's five most significant customers represented approximately 43.6% and 27.2% of total revenue, respectively. For the quarter and nine months ended September 30, 2013, the Company's five most significant customers represented approximately 60.3% and 31.4% of total revenue, respectively. At September 30, 2014 and December 31, 2013, accounts receivable from the Company's five most significant customers were approximately \$6,396 and \$5,912, respectively.

### Note 12. Subsequent Events

The Company has evaluated all of its activities and concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes to the condensed consolidated financial statements.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**  
**(dollars in thousands, except per-share amounts)**

The following discussion and analysis should be read together with our unaudited condensed consolidated financial statements and related notes thereto set forth in this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2013.

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to our future financial or business performance, strategies, or expectations. Forward-looking statements typically are identified by words or phrases such as trend, potential, opportunity, pipeline, believe, comfortable, expect, anticipate, current, intention, assume, outlook, continue, remain, maintain, sustain, seek, achieve, as well as similar expressions, or future or conditional verbs such as would, should, could and may.

We caution that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made and we assume no duty to and do not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to items described under Risk Factors in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, the following factors, among others, could cause results to differ materially from forward-looking statements or historical performance: our ability to qualify more industrial materials in which we can print; the availability of skilled personnel; the impact of increased operating expenses and expenses relating to proposed acquisitions, investments and alliances; our strategy, including the expansion and growth of our operations; the impact of loss of key management; our plans regarding increased international operations in additional international locations; sufficiency of funds for required capital expenditures, working capital, and debt service; the adequacy of sources of liquidity; expectations regarding demand for our industrial products, operating revenues, operating and maintenance expenses, insurance expenses and deductibles, interest expenses, debt levels, and other matters with regard to outlook; demand for aerospace, automotive, heavy equipment, energy/oil/gas and other industrial products; the scope, nature or impact of acquisitions, alliances and strategic investments and our ability to integrate acquisitions and strategic investments; liabilities under laws and regulations protecting the environment; the impact of governmental laws and regulations; operating hazards, war, terrorism and cancellation or unavailability of insurance coverage; the effect of litigation and contingencies; the impact of disruption of our manufacturing facilities or production service centers (PSCs); the adequacy of our protection of our intellectual property; material weaknesses in our internal control over financial reporting.

## **Overview**

### ***Organization***

ExOne is a corporation organized under the laws of the state of Delaware. ExOne was formed on January 1, 2013, when The Ex One Company, LLC, a Delaware limited liability company, merged with and into a Delaware corporation, which survived and changed its name to The ExOne Company. As a result of the Reorganization, The Ex One Company, LLC became ExOne, the common and preferred interest holders of The Ex One Company, LLC became holders of common stock and preferred stock, respectively, of ExOne, and the subsidiaries of The Ex One Company, LLC became the subsidiaries of ExOne.

On February 6, 2013, we commenced an initial public offering of 6,095,000 shares of our common stock at a price to the public of \$18.00 per share, of which 5,483,333 shares were sold by us and 611,667 were sold by a selling stockholder (including consideration of the exercise of the underwriters' over-allotment option). Following completion of the offering on February 12, 2013, we received net proceeds of approximately \$91,996 (net of underwriting commissions).

On September 9, 2013, we commenced a secondary public offering of 3,054,400 shares of our common stock at a price to the public of \$62.00 per share, of which 1,106,000 shares were sold by us and 1,948,400 were sold by selling stockholders (including consideration of the exercise of the underwriters' over-allotment option). Following completion of the offering on September 13, 2013, we received net proceeds of approximately \$65,315 (net of underwriting commissions).

The condensed consolidated financial statements include the accounts of ExOne, its wholly-owned subsidiaries, ExOne Americas LLC (United States), ExOne GmbH (Germany), ExOne KK (Japan); effective in August 2013, ExOne Property GmbH (Germany); effective in March 2014, MWT Gesellschaft für Industrielle Mikrowellentechnik mbH (Germany); effective in May 2014, ExOne Italy S.r.l (Italy) and through March 27, 2013 (see further description below) two VIEs in which ExOne was identified as the primary beneficiary, Lone Star and TMF.

At December 31, 2012 and through March 27, 2013, ExOne leased property and equipment from Lone Star and TMF. ExOne did not have an ownership interest in Lone Star or TMF and the assets of Lone Star and TMF could only be used to settle obligations of Lone Star and TMF. ExOne was identified as the primary beneficiary of Lone Star and TMF in accordance with guidance issued by the FASB on the consolidation of VIEs, as ExOne guaranteed certain long-term debt of both Lone Star and TMF and governed these entities through common ownership. FASB guidance requires certain VIEs to be consolidated when an enterprise has the power to direct the activities of the VIE that most significantly impact VIE economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The condensed consolidated financial statements therefore include the accounts of Lone Star and TMF through March 27, 2013.

On March 27, 2013, ExOne Americas LLC acquired certain assets, including property and equipment (principally land, buildings and machinery and equipment) held by the two VIEs, and assumed all outstanding debt of such VIEs. Following this transaction, neither of the entities continued to meet the definition of a VIE with respect to ExOne, and as a result, the remaining assets and liabilities of both entities were deconsolidated following the transaction.

### ***Business and Strategy***

We are a global provider of 3D printing machines and printed products, materials and other services to industrial customers. Our business primarily consists of manufacturing and selling 3D printing machines and printing products to specifications for our customers using our installed 3D printing machines. We offer pre-production collaboration and print products for customers through our eight PSCs, which are located in the United States, Germany, Italy (effective August 2014) and Japan. We build 3D printing machines at our facilities in the United States and Germany, and supply the associated materials, including consumables and replacement parts, and other services, including training and technical support, necessary for purchasers of our machines to print products. We believe that our ability to print in a variety of industrial materials, as well as our industry-leading printing capacity (as measured by build box size and printhead speed) uniquely position us to serve the needs of industrial customers.

As an additive manufacturer, we are an early entrant into an evolving manufacturing technology and marketplace. Our strategy has been to position our manufacturing assets, both in terms of our ability and capacity, to prepare for an anticipated increase of customer acceptance of this form of manufacturing. We have made financial support of this growth strategy a priority. We have invested in both our research and development and infrastructure, including capital investment in 3D printing machines, and hiring key personnel.

As our infrastructure continues to grow, we intend to maintain our strategic focus on opening additional PSCs in order to broaden our potential global customer base and to expand our 3D printing capability in an increasing variety of industrial materials. Our growth strategy focuses on growing our current global PSCs in order to print more products for our existing customers and gain new customers. We also plan to locate additional new PSCs in major industrial centers near existing and potential customers.

Our growth strategy includes using our printed products as an introduction of our technology to facilitate 3D printing machine sales. An important part of reaching these goals is to increase our capability to print in a growing number of industrial materials and increase the job box sizes and production speeds (volumetric output) available to our potential customers, which will increase the efficiency and usefulness of our technology. In addition, we use our regional PSCs to educate our potential customers and the marketplace about the advantages of 3D printing.

We also believe expanding the location of our PSCs to high-growth economies and geographic regions that are readily accessible by a significant number of potential customers will help us to increase sales. To better balance our business, we intend to develop our customer base so that revenue is not dependent on any one region (North America, South America and Latin America (collectively, the Americas), Europe and Asia). Likewise, we intend to balance revenue between our 3D printing machines and 3D printed products, materials and other services.

Our next generation 3D printing machine platforms have achieved the volumetric output rate and quality necessary to serve industrial markets on a production scale. We believe that there is an opportunity to similarly advance the pre-print and post-print

processing phases of product materialization to more fully exploit the transformative power of our 3D printing machines and drive growth. These opportunities relate to both direct and indirect product materialization. For direct material production, we believe that enhancing pre-print processes, notably design optimization tools and suitable print material availability, can greatly accelerate our capture of market share in the near-term. Additionally, enhancements to post-print processing will increase the applications for printed products. Through our ExOne Materials Application Laboratory ( ExMAL ), we are developing post-print processing technologies to achieve fully dense product materialization without the need for infiltration, and we are exploring technology-sharing partnerships to further this initiative. In indirect production utilizing 3D printed molds and cores, advanced performance casting technologies can be leveraged to increase yields and reduce weight of casted products. To address the market opportunity and fill the execution gap, we have developed a suite of processes, many of which are proprietary, for producing high-quality castings through a process that we call ExCast. ExCast provides industry guidance and support through all stages of production, from computer-aided drafting at the design stage, through the 3D materialization of molds and cores, casting of the end product and rapid delivery to the end-user.

Finally, we intend to opportunistically identify and, through acquisitions, alliances and/or strategic investment, integrate and advance complementary businesses, technologies and capabilities. Our goal is to expand the functionality of our products, provide access to new customers and markets, and increase our production capacity.

### *Recent Developments*

On March 3, 2014, ExOne Americas LLC, entered into an Asset Purchase Agreement to acquire (i) substantially all the assets of MAM, a specialty machine shop located in Chesterfield, Michigan, and (ii) the real property on which the MAM business is located from Metal Links, LLC, a Michigan limited liability company. The total purchase price was approximately \$4,995, which includes approximately \$4,618 in cash and \$377 in contingent consideration in the form of a two-year earn-out provision. The two-year earn-out provision is based on a combination of achievement of revenues and gross profit for the acquired business for which we assumed full achievement of both targets for each of the respective years on the date of acquisition. MAM will remain in its current Michigan location, complementing our nearby PSC in Troy, Michigan. This PSC focuses on advanced 3D printed cores and molds for the aerospace and shipbuilding industries. In addition, we expect to continue to serve and expand the existing MAM industrial customer base. We believe that MAM's specialty precision machining expertise helps us address the finishing requirements for complex parts which are cast from our 3D printed cores and molds.

On March 6, 2014, ExOne GmbH, entered into a Purchase and Assignment Contract to acquire all of the shares of MWT, a pioneer in industrial-grade microwaves with design and manufacturing experience based in Elz, Germany. The total purchase price was approximately 3,557 (\$4,891), which includes approximately 3,500 (\$4,813) in cash and approximately 57 (\$78) in other net liabilities settled at the date of acquisition. We believe that this acquisition enhances our position as the market leader of 3D sand production systems for industry. Industrial grade microwaves are used for thermally processing certain sand molds or cores that are 3D printed using binders, such as phenolic binder, that require a drying process. Importantly, microwave technology improves casting quality and reduces production costs for customers in specific industries, such as magnesium parts for aviation and steel alloy parts for hydraulic components. MWT designs and manufactures equipment that is currently employed in our PSC operations. We also plan to offer this technology to customers in future system sales. MWT's microwave operation will be operationally integrated with our Augsburg, Germany manufacturing operations.

On May 5, 2014, we announced that ExMAL qualified Nickel-based alloy 625, which represents our first single metal alloy for 3D printing industrial applications at more than 99 percent density utilizing our binder jetting technology. Nickel-based alloy 625 is commonly used for components in the aerospace, chemical and energy markets, with applications including gas turbine blade, filtration and separation, heat exchanger and molding processes. The metal is desirable due to its oxidation and corrosion-resistant qualities, and its ability to retain its strength even when subjected to extreme environments such as high pressure or wide temperature ranges. Nickel-based alloy 625 has been qualified for use on our M-Flex and X1-Lab 3D printing machine platforms.

On June 19, 2014, we announced the planned opening of a new combined PSC and 3D printing machine sales center in the Lombardy region of Italy. The location, consisting of an approximately 3,300 square foot leased facility, was selected due to its close proximity to foundries and operations supporting the aviation, automotive and other industries around Milan, Turin and Venice. The ExOne Italy PSC will initially operate with one each of our S-Max and S-Print 3D printing machines, with the S-Print unit utilizing our phenolic binder solution which is especially conducive to challenges faced by our aviation, automotive, hydraulic/heavy equipment and pump industry customers. The facility opened in August 2014, with operations expected to commence in the fourth quarter.



## Results of Operations

### Net Loss Attributable to ExOne

Net loss attributable to ExOne for the quarter ended September 30, 2014, was \$4,451, or \$0.31 per basic and diluted share, compared with a net loss attributable to ExOne of \$224, or \$0.02 per basic and diluted share, for the quarter ended September 30, 2013. Net loss attributable to ExOne for the nine months ended September 30, 2014, was \$14,643, or \$1.02 per basic and diluted share, compared with a net loss attributable to ExOne of \$3,258, or \$0.28 per basic and diluted share, for the nine months ended September 30, 2013.

The increase in our net loss for both periods was principally due to (i) a decrease in our gross profit, principally as a result of an unfavorable mix of 3D printing machine and micromachinery sales versus sales of 3D printed products, materials and other services, costs incurred in connection with the development of our ExCast strategy and expansion of our PSC network, and lower profitability of MAM and MWT (both acquired in 2014) as compared to our legacy operations and (ii) higher operating expenses attributed mostly to personnel costs associated with an increased headcount and additional research and development spending (related to material qualification activities and 3D printing machine development). Refer to the sections below for further description of these changes.

### Revenue

The following table summarizes revenue by product line for each of the quarter and nine months periods ended September 30:

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
3D printing machines and micromachinery	\$ 4,218	43.7%	\$ 7,767	66.8%	\$ 12,616	44.8%	\$ 17,820	61.9%
3D printed products, materials and other services	5,431	56.3%	3,854	33.2%	15,519	55.2%	10,965	38.1%
	\$ 9,649	100.0%	\$ 11,621	100.0%	\$ 28,135	100.0%	\$ 28,785	100.0%

Revenue for the quarter ended September 30, 2014, was \$9,649 compared with revenue of \$11,621 for the quarter ended September 30, 2013, a decrease of \$1,972, or 17.0%. This decrease was principally due to a decrease in revenues associated with 3D printing machines and micromachinery for the quarter ended September 30, 2014, as compared to the quarter ended September 30, 2013, as a result of an unfavorable mix of machines sold, offset by an increase in revenue from 3D printed products, materials and other services driven by (i) an overall continued increase in customer acceptance and demand for our additive manufacturing technologies, resulting in higher PSC volumes, (ii) an increase in the number of our 3D printing machines that are installed and active worldwide (resulting in higher aggregate consumable material and service revenues) and (iii) revenues attributable to MAM and MWT (both acquired in March 2014).

The following table summarizes the significant components of the change in revenue by product line for the quarter ended September 30, 2013, compared to the quarter ended September 30, 2014:

	3D printing machines and micromachinery	3D printed products, materials and other services	Total
<b>Quarter Ended September 30, 2013</b>	\$ 7,767	\$ 3,854	\$ 11,621
Change in revenue attributed to:			
Volume		1,603	1,603
Pricing and sales mix	(3,549)		(3,549)
Foreign currency		(26)	(26)
	(3,549)	1,577	(1,972)

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<b>Quarter Ended September 30, 2014</b>	\$	4,218	\$	5,431	\$	9,649
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Revenue for the nine months ended September 30, 2014, was \$28,135 compared with revenue of \$28,785 for the nine months ended September 30, 2013, a decrease of \$650, or 2.3%. This decrease was principally due to a decrease in revenues associated with 3D printing machines and micromachinery for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, as a result of an unfavorable mix of machines sold, offset by an increase in revenue from 3D printed products, materials and other services driven by (i) an overall continued increase in customer acceptance and

demand for our additive manufacturing technologies, resulting in higher PSC volumes, (ii) an increase in revenues derived from ExCast-related activities, (iii) an increase in the number of our 3D printing machines that are installed and active worldwide (resulting in higher aggregate consumable material and service revenues) and (iv) revenues attributable to MAM and MWT (both acquired in March 2014).

The following table summarizes the significant components of the change in revenue by product line for the nine months ended September 30, 2013, compared to the nine months ended September 30, 2014:

	3D printing machines and micromachinery	3D printed products, materials and other services	Total
<b>Nine Months Ended September 30, 2013</b>	\$ 17,820	\$ 10,965	\$ 28,785
Change in revenue attributed to:			
Volume		4,554	4,554
Pricing and sales mix	(5,371)		(5,371)
Foreign currency	167		167
	(5,204)	4,554	(650)
<b>Nine Months Ended September 30, 2014</b>	\$ 12,616	\$ 15,519	\$ 28,135

The following table summarizes 3D printing machines sold by type for each of the quarter and nine month periods ended September 30 (refer to the Our Machines and Machine Platforms section of Part I Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2013, for a description of 3D printing machines and micromachinery by type):

Machine units sold:	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
S-Max	1	4	5	10
S-Print		1	1	2
S-15		1	1	1
M-Flex	4	1	6	1
X1-Lab	3	1	4	2
Micromachinery				1
	8	8	17	17

### *Cost of Sales and Gross Profit*

Cost of sales for the quarter ended September 30, 2014, was \$7,162 compared with cost of sales of \$6,370 for the quarter ended September 30, 2013, an increase of \$792, or 12.4%. Cost of sales as a percentage of revenue was 74.2% for the quarter ended September 30, 2014, compared with 54.8% for the quarter ended September 30, 2013.

Gross profit for the quarter ended September 30, 2014, was \$2,487 compared with gross profit of \$5,251 for the quarter ended September 30, 2013, a decrease of \$2,764, or 52.6%. Gross profit percentage was 25.8% for the quarter ended September 30, 2014, compared with 45.2% for the quarter ended September 30, 2013. This decrease was principally as a result of an unfavorable mix of 3D printing machine and micromachinery sales versus sales of 3D printed products, materials and other services, costs incurred in connection with the development of our ExCast strategy and expansion of our PSC network, and lower profitability of MAM and MWT (both acquired in March 2014) as compared to our legacy operations.

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Cost of sales for the nine months ended September 30, 2014, was \$21,533 compared with cost of sales of \$16,515 for the nine months ended September 30, 2013, an increase of \$5,018, or 30.4%. Cost of sales as a percentage of revenue was 76.5% for the nine months ended September 30, 2014, compared with 57.4% for the nine months ended September 30, 2013.

Gross profit for the nine months ended September 30, 2014, was \$6,602 compared with gross profit of \$12,270 for the nine months ended September 30, 2013, a decrease of \$5,668, or 46.2%. Gross profit percentage was 23.5% for the nine months ended September 30, 2014, compared with 42.6% for the nine months ended September 30, 2013. This decrease was principally as a result of an unfavorable mix of 3D printing machine and micromachinery sales versus sales of 3D printed products, materials and other services, costs incurred in connection with the development of our ExCast strategy and expansion of our PSC network, and lower profitability of MAM and MWT (both acquired in March 2014) as compared to our legacy operations.

### *Operating Expenses*

The following table summarizes the significant components of operating expenses for each of the quarter and nine month periods ended September 30:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Research and development	\$ 2,261	\$ 1,286	\$ 6,014	\$ 3,418
Selling, general and administrative	4,593	3,703	15,061	11,179
	\$ 6,854	\$ 4,989	\$ 21,075	\$ 14,597

Operating expenses for the quarter ended September 30, 2014, were \$6,854 compared with operating expenses of \$4,989 for the quarter ended September 30, 2013, an increase of \$1,865, or 37.4%. Operating expenses as a percentage of revenue were 71.0% for the quarter ended September 30, 2014, compared with 42.9% for the quarter ended September 30, 2013.

Research and development expenses for the quarter ended September 30, 2014, were \$2,261 compared with research and development expenses of \$1,286 for the quarter ended September 30, 2013, an increase of \$975, or 75.8%. This increase was primarily due to (i) increased costs associated with our materials qualification activities, mostly additional research and development headcount, and (ii) continued investment in enhancing our 3D printing machine and micromachinery technology, including new machine development, for both direct and indirect printing.

Selling, general and administrative expenses for the quarter ended September 30, 2014, were \$4,593 compared with selling, general and administrative expenses of \$3,703 for the quarter ended September 30, 2013, an increase of \$890, or 24.0%. This increase was principally due to personnel costs associated with an increased headcount (including salaries, related benefits and equity-based compensation) and other growth-related expenses (consulting and professional fees, including costs associated with our German facility transition and our global enterprise resource planning ( ERP ) system deployment) as well as the impact of the MAM and MWT acquisitions (acquired in March 2014), offset by a decrease in selling expenses, primarily a commission associated with a sale by an independent sales representative during the quarter ended September 30, 2013.

Operating expenses for the nine months ended September 30, 2014, were \$21,075 compared with operating expenses of \$14,597 for the nine months ended September 30, 2013, an increase of \$6,478, or 44.4%. Operating expenses as a percentage of revenue were 74.9% for the nine months ended September 30, 2014, compared with 50.7% for the nine months ended September 30, 2013.

Research and development expenses for the nine months ended September 30, 2014, were \$6,014 compared with research and development expenses of \$3,418 for the nine months ended September 30, 2013, an increase of \$2,596, or 76.0%. This increase was primarily due to (i) increased costs associated with our materials qualification activities, including additional research and development headcount, materials usage, professional fees and facilities costs associated with our new materials development laboratory in the United States and (ii) continued investment in enhancing our 3D printing machine and micromachinery technology, including new machine development, for both direct and indirect printing.

Selling, general and administrative expenses for the nine months ended September 30, 2014, were \$15,061 compared with selling, general and administrative expenses of \$11,179 for the nine months ended September 30, 2013, an increase of \$3,882, or 34.7%. This increase was principally due to (i) personnel costs associated with an increased headcount (including salaries, related benefits, travel expenses and equity-based compensation), other growth-related expenses (consulting and professional fees) and higher selling expenses (mostly related to increased trade show activities), (ii) expenses associated with merger and acquisition related activities, and (iii) the impact of the MAM and MWT acquisitions (acquired in March 2014). These increases were offset by the change in fair value of contingent consideration associated with the MAM acquisition recorded during the quarter ended June 30, 2014.



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***Interest Expense***

Interest expense for the quarter ended September 30, 2014, was \$32 compared with interest expense of \$46 for the quarter ended September 30, 2013, a decrease of \$14, or 30.4%. This decrease was principally due to a lower average outstanding debt balance for the quarter ended September 30, 2014, as compared to the quarter ended September 30, 2013.

Interest expense for the nine months ended September 30, 2014, was \$106 compared with interest expense of \$326 for the nine months ended September 30, 2013, a decrease of \$220, or 67.5%. This decrease was principally due to a lower average outstanding debt balance for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, mostly due to (i) the retirement of the demand note payable to a member in February 2013 and (ii) the settlement of debt held by VIEs in connection with our acquisition of certain related assets of those entities in March 2013.

***Other (Income) Expense Net***

Other (income) expense net for the quarter ended September 30, 2014, was (\$55) compared with other (income) expense net of \$1 for the quarter ended September 30, 2013, an increase of \$56, or 560.0%. Amounts for both periods consisted principally of interest income on cash deposits and other financing activity benefits.

Other (income) expense net for the nine months ended September 30, 2014, was (\$210) compared with other (income) expense net of (\$63) for the nine months ended September 30, 2013, an increase of \$147, or 233.3%. Amounts for both periods consisted principally of interest income on cash deposits and other financing activity benefits.

***Provision for Income Taxes***

The provision for income taxes for the quarters ended September 30, 2014 and 2013, was \$107 and \$439, respectively. The effective tax rate for the quarters ended September 30, 2014 and 2013, was 2.5% (provision on a loss) and 204.2% (provision on income), respectively. For each of the quarters ended September 30, 2014 and 2013, the effective tax rate differs from the U.S. federal statutory rate of 34.0% primarily due to net changes in valuation allowances for the period.

The provision for income taxes for the nine months ended September 30, 2014 and 2013, was \$274 and \$530, respectively. The effective tax rate for the nine months ended September 30, 2014 and 2013, was 1.9% (provision on a loss) and 20.5% (provision on a loss), respectively. For the nine months ended September 30, 2014 and 2013, the effective tax rate differs from the U.S. federal statutory rate of 34.0% primarily due to net changes in valuation allowances for the period.

We have provided a valuation allowance for our net deferred tax assets as a result of our inability to generate consistent net operating profits in jurisdictions in which we operate. As such, any benefit from deferred taxes in either quarterly period has been fully offset by changes in the valuation allowance for net deferred tax assets. We continue to assess our future taxable income by jurisdiction based on (i) our recent historical operating results (ii) the expected timing of reversal of temporary differences (iii) various tax planning strategies that we may be able to enact in future periods (iv) the impact of potential operating changes on our business and (v) our forecast results from operations in future periods based on available information at the end of each reporting period. To the extent that we are able to reach the conclusion that deferred tax assets are realizable based on any combination of the above factors, a reversal of existing valuation allowances may occur.

***Noncontrolling Interests***

There was no net income attributable to noncontrolling interests for the quarter or nine months ended September 30, 2014, or the quarter ended September 30, 2013, following the acquisition of net assets in the related variable interest entities which was completed during the quarter ended March 31, 2013. Net income attributable to noncontrolling interests was \$138 for the nine months ended September 30, 2013.

***Impact of Inflation***

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition are not significant.

## Liquidity and Capital Resources

We incurred net losses of approximately \$6,317, \$9,688 and \$7,617 for the years ended December 31, 2013, 2012 and 2011, respectively. As shown in the accompanying condensed consolidated financial statements we incurred a net loss of approximately \$4,451 and \$14,643 for the quarter and nine months ended September 30, 2014, respectively. Prior to our Reorganization, we operated as a limited liability company and were substantially supported by the continued financial support provided by our majority member. In connection with the completion of our initial public offering in February 2013 and our secondary public offering in September 2013, we received unrestricted net proceeds from the sale of our common stock of approximately \$157,311. We believe that the unrestricted net proceeds obtained through these transactions will be sufficient to support our operations through November 14, 2015.

The following table summarizes the significant components of cash flows for each of the nine month periods ended September 30 and our cash and cash equivalents balance at September 30, 2014 and December 31, 2013:

	2014	2013
Cash used for operating activities	\$ (24,595)	\$ (13,451)
Cash used for investing activities	(27,816)	(12,149)
Cash (used for) provided by financing activities	(526)	137,927
Effect of exchange rate changes on cash and cash equivalents	(302)	15
<b>Net change in cash and cash equivalents</b>	<b>\$ (53,239)</b>	<b>\$ 112,342</b>
	<b>September 30,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 45,206	\$ 98,445

### Operating Activities

Cash used for operating activities for the nine months ended September 30, 2014, was \$24,595 compared with \$13,451 for the nine months ended September 30, 2013. The increase of \$11,144, or 82.8%, was mostly attributed to an increase in our net loss less depreciation and amortization, equity-based compensation, provision for bad debts and changes in fair value of contingent consideration of \$10,314 mostly due to lower gross profits for the period and increases in operating expenses (see further description above). In addition, net changes in assets and liabilities were impacted by (i) a decrease in inflows related to accounts receivable from customers based on the timing of payment and lower selling volume for the end of 2013 compared to the end of 2012, (ii) an increase in outflows associated with inventories (as a result of increases in global machine manufacturing activities including preparation for the Company's transition from its Augsburg, Germany facilities to its new Gersthofen, Germany facility (expected in the fourth quarter), (iii) a decrease in outflows associated with prepaid expenses and other assets, accounts payable and accrued expenses and other current liabilities based on the volume and magnitude of purchasing activities and the timing of payments to vendors and (iv) an increase in inflows associated with deferred revenue and customer prepayments based on the timing of receipt of deposits from customers and the delivery of products or services to customers.

### Investing Activities

Cash used for investing activities for the nine months ended September 30, 2014, was \$27,816 compared with \$12,149 for the nine months ended September 30, 2013. The increase of \$15,667, or 129.0%, was primarily attributed to increased capital expenditures, mostly due to spending associated with (i) the expansion of our facilities in Germany to increase our 3D printing machine manufacturing, PSC and other administrative facilities located there and (ii) the acquisition of the land and building associated with our Japanese subsidiary and cash paid for acquisitions (MAM and MWT).

Our remaining 2014 capital expenditures plan includes (i) completion of our new multi-use facility in Germany, (ii) an expansion and further investment in our facilities in the United States (including our planned facility expansion for our direct printing operations in North Huntingdon, Pennsylvania and research and development facilities in St. Clairsville, Ohio), (iii) an increase in our global installed base of 3D printing machines and related equipment for our PSC network, (iv) spending associated with the enhancement and upgrade of our global ERP systems to support our business activities, and (v) additional sustaining capital expenditures. Total capital expenditures ranging from approximately \$25,000 to \$27,000 are expected for 2014 (including costs incurred through the nine months ended September 30, 2014).





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### **Financing Activities**

Cash used for financing activities for the nine months ended September 30, 2014, was \$526 compared with cash provided by financing activities of \$137,927 for the nine months ended September 30, 2013.

The principal use of cash for the nine months ended September 30, 2014, was \$844 associated with principal payments on outstanding debt (including the payoff of debt assumed in connection with the MAM acquisition) and financing leases offset by \$318 in cash proceeds from the exercise of employee stock options.

The principal sources of cash for the nine months ended September 30, 2013, were net proceeds from our initial public offering of \$91,083 and our secondary public offering of \$65,201. Offsetting these sources of cash were outflows of (i) \$528 associated with the repayment of amounts outstanding on our German line of credit, (ii) \$9,885 associated with the repayment of amounts outstanding on the demand note payable to member (which was subsequently retired by us), (iii) \$7,488 associated with the repayment of other outstanding debt and principal payments on financing leases, including repayment of all of the debt assumed from our VIEs in connection with the acquisition of net assets on March 27, 2013, and settlement of our financing lease obligation with a related party for a cash payment of approximately \$1,372 during the quarter ended June 30, 2013, and (iv) \$456 in preferred stock dividends paid prior to conversion of preferred stock to common stock upon closing of our initial public offering.

### **Off Balance Sheet Arrangements**

We are not a party to any off balance sheet arrangements.

### **Recently Issued and Adopted Accounting Guidance**

Refer to Note 1 to the condensed consolidated financial statements in Part I Item 1 of this Quarterly Report on Form 10-Q.

### **Critical Accounting Policies and Estimates**

Refer to Note 1 of the consolidated financial statements in Part I Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013. In addition, refer to Note 4 to the condensed consolidated financial statements in Part I Item 1 of this Quarterly Report on Form 10-Q.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to market risk from fluctuations in foreign currency exchange rates which may adversely affect our results of operations and financial condition. We seek to minimize these risks through regular operating and financing activities and, when we consider it to be appropriate, through the use of derivative financial instruments. We do not purchase, hold or sell derivative financial instruments for trading or speculative purposes.

The local currency is the functional currency for significant operations outside of the United States. The determination of the functional currency of an operation is made based on the appropriate economic and management indicators.

Foreign currency assets and liabilities are translated into their U.S. dollar equivalents based on year end exchange rates, and are included in stockholders' equity as a component of other comprehensive income (loss). Revenues and expenses are translated at average exchange rates. Transaction gains and losses that arise from exchange rate fluctuations are charged to operations as incurred, except for gains and losses associated with intercompany receivables and payables for which settlement is not planned or anticipated in the foreseeable future, which are included in accumulated other comprehensive loss in the consolidated balance sheet.

We transact business globally and are subject to risks associated with fluctuating foreign exchange rates. Approximately 34.6% and 64.3% of our consolidated revenue was derived from transactions outside the United States for the quarters ended September 30, 2014 and 2013, respectively. Approximately 50.6% and 64.7% of our consolidated revenue was derived from transactions outside the United States for the nine months ended September 30, 2014 and 2013, respectively. This revenue is generated primarily from wholly-owned subsidiaries operating in their respective countries and surrounding geographic

areas. This revenue is primarily denominated in each subsidiary's local functional currency, including the Euro and Japanese Yen. A hypothetical change in foreign exchange rates of +/- 10.0% for the quarter and nine months ended September 30, 2014, would result in an increase (decrease) in revenue of approximately \$300 and \$1,400, respectively. These subsidiaries incur most of their expenses (other than intercompany expenses) in their local functional currencies.

At September 30, 2014, we held approximately \$45,206 in cash and cash equivalents, of which, approximately \$41,055 was held by our United States parent in U.S. dollars.

**Item 4. Controls and Procedures.**

***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, management concluded as of September 30, 2014, that our disclosure controls and procedures were not effective at the reasonable assurance level due to material weaknesses in our internal control over financial reporting as discussed in the Company's Annual Report on Form 10-K filed on March 20, 2014.

As a result of material weaknesses described in our Annual Report on Form 10-K, we performed additional analysis and other post-closing procedures to ensure our condensed consolidated financial statements were prepared in accordance with GAAP. Accordingly, management believes that the financial statements and related notes thereto included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

***Changes in Internal Control over Financial Reporting***

During the quarter and nine months ended September 30, 2014, with the oversight of senior management and our audit committee, we continued to take steps and additional measures to remediate the underlying causes of the identified material weaknesses including:

- (i) Enhancing our global accounting and reporting process (including our global consolidation of financial information) by redesigning and strengthening the operating effectiveness of internal controls over financial reporting. This includes a detailed review of our existing processes by our Director of Internal Audit and Controls (hired in June 2014), improvements to the design of our internal controls (including conversion of historically manual control activities to automated control activities), updating documentation related to our business process flows, internal testing of operating effectiveness of our controls and remediation activities, as necessary.
- (ii) Evaluating our information technology systems to further integrate existing systems or invest in improvements to our technology sufficient to generate accurate and timely financial information. This includes our ongoing process to enhance our global ERP systems with the goal of a simple, common and global platform for processing, recording and analyzing financial and operational data.
- (iii) Continuing to add financial personnel with adequate knowledge and experience in GAAP. In 2014, we have added several personnel with extensive GAAP experience and redesigned our reporting structure and responsibilities to enhance the review of financial information for both internal financial analysis and external financial reporting.

We can provide no assurance at this time that management will be able to report that our internal control over financial reporting is effective as of December 31, 2014. As an emerging growth company, we are exempt from the requirement to obtain an attestation report from our

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independent registered public accounting firm on the assessment of our internal controls pursuant to the Sarbanes-Oxley Act of 2002 until 2018, or such time that we no longer qualify as an emerging growth company in accordance with the Jumpstart Our Businesses Startups Act of 2012.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

ExOne and its subsidiaries are subject to various litigation, claims, and proceedings which have been or may be instituted or asserted from time to time in the ordinary course of business. Management does not believe that the outcome of any pending or threatened matters will have a material adverse effect, individually or in the aggregate, on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

The disclosure in this item updates and supplements the risk factors set forth in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

*Continuing political instability in the Ukraine, sanctions against Russia, and Russia's response to those sanctions, could materially adversely affect our business, results of operations and financial condition.*

In March 2014, the Crimea region of the Ukraine was annexed by Russia. In response to this annexation and subsequent hostilities aimed at the Ukraine, other nations, including the United States and the European Union, imposed evolving economic sanctions against Russia. US and European concerns related to the political and military conditions in the region have prompted increasing levels of economic sanctions, targeting certain Russian companies in the finance, energy and defense industries and named Russian nationals that have been deemed to have direct involvement in destabilizing the situation in the Ukraine, as well as imposing restrictions on trading and access to capital markets ( Russian Sanctions ). In response, Russia announced its own trading sanctions against nations that implemented or supported the Russian Sanctions, including the United States and some European Union nations.

As further described in our Annual Report on Form 10-K for the year ended December 31, 2013, one of our growth strategies is to pursue opportunities for our business in several areas of the world outside of the United States. This strategy includes pursuing opportunities in Russia through our German subsidiary, ExOne GmbH, which has sold machines to customers located in Russia in the past.

Our German subsidiary, ExOne GmbH, is subject to the Russian Sanctions, primarily those imposed by the European Union, specifically Germany, related to doing business in Russia. The Russian Sanctions may delay or prevent ExOne GmbH's ability to collect on existing or future accounts receivable from customers in Russia, to make future sales and to service existing ExOne equipment in Russia or to sell and deliver spare parts and consumables for our machines located in Russia.

In the event that the United States and the European Union's political relationships with Russia further deteriorate, it is possible that additional and even more severe sanctions could be imposed by the United States or European Union against Russia or that Russia could impose additional retaliatory measures in response to current or future Russian Sanctions. These possible additional sanctions and measures could further disrupt or prevent our ability to do any business in Russia, may further increase the economic uncertainty in the affected regions and lead to further fluctuation in the value of foreign currencies, such as the Euro, used in these regions.

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

None.

**Use of Proceeds from Initial Public Offering**

On February 6, 2013, our Registration Statement on Form S-1 (File No. 333-185933) was declared effective for our initial public offering ( IPO ), pursuant to which we offered and sold 5,483,333 shares of common stock at a public offering price of \$18.00 per share; and RHI also offered and sold 611,667 shares of common stock at a public offering price of \$18.00 per share. S. Kent Rockwell, our Chairman and Chief Executive Officer, is the beneficiary of the S. Kent Rockwell Revocable Trust, which is the indirect, sole stockholder of RHI. Accordingly, S. Kent Rockwell is deemed to have beneficial ownership of our common stock owned by RHI. The managing underwriter was FBR Capital Markets & Co. and the co-managers were BB&T Capital Markets and Stephens Inc.

As a result of the completion of our IPO on February 12, 2013, we received net proceeds of approximately \$92.0 million, after deducting underwriting discounts and commissions. We did not receive any proceeds from the sale of 611,667 shares of common stock by RHI, although we bore the costs, other than underwriting discounts and commissions, associated with the sale of these shares. We incurred approximately \$1.6 million in total associated offering costs in connection with the IPO of which \$0.7 million were previously paid and deferred by us at December 31, 2012.

Except as described below, none of such payments were direct or indirect payments to any of our directors or officers or their associates or to persons owning 10.0 percent or more of our common stock or direct or indirect payments to others.

***Rockwell Line of Credit (Demand Note Payable to Member)***

On February 14, 2013, we paid approximately \$9.9 million of the net proceeds from the IPO to repay a revolving line of credit that we had with RFP for working capital (the Rockwell Line of Credit ). The Rockwell Line of Credit provided for borrowing, repayment and reborrowing from time to time. While no limit was specified, borrowings were subject to RFP's approval. Borrowings under the Rockwell Line of Credit bore interest at the rate of 8.0% per annum and were repayable, in whole or part, upon demand of RFP. As of February 14, 2013, we had approximately \$9.9 million in borrowings and accrued interest outstanding under the Rockwell Line of Credit. S. Kent Rockwell, our Chairman and Chief Executive Officer, is the beneficiary of the S. Kent Rockwell Revocable Trust, which is the indirect, sole stockholder of RFP. The Company no longer maintains the Rockwell Line of Credit.

***Acquisition of Net Assets of Variable Interest Entities***

On March 27, 2013, our wholly-owned subsidiary, ExOne Americas LLC, acquired certain assets, including property and equipment (principally land, buildings and machinery and equipment) held by our two variable interest entities, TMF and Lone Star and assumed all outstanding debt of the VIEs. Payment of approximately \$1.9 million and \$0.2 million was made to TMF and Lone Star, respectively, including a return of capital to these entities of approximately \$1.4 million. These payments were made using a portion of the net proceeds from the IPO. Simultaneous with the completion of this transaction, we also repaid all of the outstanding debt assumed from the VIEs, resulting in a payment of approximately \$4.7 million using net proceeds from the IPO.

**Other**

On February 14, 2013, we paid approximately \$0.3 million of the net proceeds from the IPO to retire our building note payable to an unrelated third party with respect to our facility in North Huntingdon, Pennsylvania. There were no prepayment penalties or gains or losses associated with this early retirement of debt.

On April 4, 2013, we paid approximately \$1.4 million of the net proceeds from the IPO to settle a financing lease obligation (including accrued interest) for a 3D printing machine with a related party. There were no prepayment penalties or gains or losses associated with this settlement.

On August 1, 2013, ExOne Property GmbH entered into an agreement with the Municipality of Gersthofen, Germany to purchase certain real property from the Municipality. We paid approximately \$4.1 million ( 3.1 million) of the net proceeds from the IPO to acquire this property.

On August 14, 2013, ExOne Property GmbH entered into a construction services contract with a turnkey provider of construction services for the design and construction of a new manufacturing facility to be located in the Municipality of Gersthofen, Germany. Through September 30, 2014, we used approximately \$18.0 million ( 13.2 million) of net proceeds from the IPO to fund this project.

On August 15, 2013, we entered into a purchase agreement for approximately one acre of land and a 17,240 square foot manufacturing facility in North Las Vegas, Nevada for a total purchase price of approximately \$1.4 million, using net proceeds from the IPO to finance the transaction.

On May 29, 2014, we entered into a purchase agreement for approximately 75,144 square feet of land and an 18,882 square foot manufacturing facility in Odawara-shi, Kanagawa-ken, Japan for a total purchase price of approximately \$4.4 million (including associated registration and consumption taxes), using net proceeds from the IPO to finance the transaction.

In addition to the amounts identified above, we used approximately \$44.8 million in net proceeds from the IPO through September 30, 2014, for general corporate purposes, principally to support working capital and our operations (including expected capital expenditures and long-term debt and capital and financing lease repayments).

We had previously disclosed in our IPO an intention to assume the liabilities of our VIEs. Other than our payment of such liabilities described above, rather than the assumption of their debt, there has been no material change in the planned use of the net proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

**Item 3. Defaults Upon Senior Securities.**

There have been no material defaults in senior securities.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

(a)(3) Exhibits

The Exhibits listed on the accompanying Index to Exhibits are filed as part of this Quarterly Report on Form 10-Q.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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.

The ExOne Company

By: /s/ S. Kent Rockwell  
S. Kent Rockwell  
*Chief Executive Officer*

*(Principal Executive Officer)*

Date: November 13, 2014

By: /s/ Brian W. Smith  
Brian W. Smith  
*Chief Financial Officer*

*(Principal Financial Officer and Principal  
Accounting Officer)*

Date: November 13, 2014



**EXHIBIT INDEX**

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

**Exhibits and Financial Statement Schedules**

(A) Exhibits:

<b>Exhibit</b>	<b>Number</b>	<b>Description</b>	<b>Method of Filing</b>
	31.1	Rule 13(a)-14(a) Certification of Principal Executive Officer.	Filed herewith.
	31.2	Rule 13(a)-14(a) Certification of Principal Financial Officer.	Filed herewith.
	32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer.	Filed herewith.
	101.INS	XBRL Instance Document.	Filed herewith.
	101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.
	101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.