ExOne Co
Form 10-Q
November 09, 2016

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, 2016

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)

Delaware	46-1684608
(State or other jurisdiction of incorporation or organization)	(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 9, 2016, 16,111,286 shares of common stock, par value $0.01, were outstanding.

IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY

We qualify as an "emerging growth company" ("EGC") as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). An EGC 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 EGC:

- 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 until December 31, 2018, or such earlier time that we are no longer an EGC. We would cease to be an EGC 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 (the "Exchange Act"), 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 (Unaudited)

(in thousands, except per-share amounts)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue				
Revenue - third parties	$12,987	$8,712	$33,084	$22,861
Revenue - related parties	1	152	73	1,294
	12,988	8,864	33,157	24,155
Cost of sales	9,428	7,695	24,215	21,881
Gross profit	3,560	1,169	8,942	2,274
Operating expenses				
Research and development	1,898	1,825	5,737	5,218
Selling, general and administrative	5,234	5,018	15,222	17,479
Goodwill impairment	—	4,419	—	4,419
	7,132	11,262	20,959	27,116
Loss from operations	(3,572)	(10,093)	(12,017)	(24,842)
Other expense (income)				
Interest expense	22	29	276	87
Other (income) expense - net	(8)	(4)	(306)	(83)
	14	25	(30)	4
Loss before income taxes	(3,586)	(10,118)	(11,987)	(24,846)
Provision (benefit) for income taxes	25	(41)	43	(200)
Net loss	$(3,611)	$(10,077)	$(12,030)	$(24,646)
Net loss per common share:				
Basic	$(0.23)	$(0.70)	$(0.76)	$(1.71)
Diluted	$(0.23)	$(0.70)	$(0.76)	$(1.71)
Comprehensive loss:				
Net loss	$(3,611)	$(10,077)	$(12,030)	$(24,646)
Other comprehensive income (loss):				
Foreign currency translation adjustments	489	809	2,288	(3,854)
Comprehensive loss	$(3,122)	$(9,268)	$(9,742)	$(28,500)

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 per-share and share amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 29,813	$ 19,342
Accounts receivable - net of allowance of $1,697 (2016) and $1,920 (2015)	5,215	9,368
Inventories - net	19,032	19,839
Prepaid expenses and other current assets	1,802	2,918
Total current assets	55,862	51,467
Property and equipment - net	54,323	54,832
Other noncurrent assets	1,716	1,659
Total assets	$ 111,901	$ 107,958
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 141	$ 138
Current portion of capital leases	82	82
Accounts payable	2,003	3,231
Accrued expenses and other current liabilities	5,336	6,410
Deferred revenue and customer prepayments	9,122	7,103
Total current liabilities	16,684	16,964
Long-term debt - net of current portion	1,707	1,812
Capital leases - net of current portion	24	81
Other noncurrent liabilities	9	28
Total liabilities	18,424	18,885
Contingencies and commitments		
Stockholders' equity		
Common stock, $0.01 par value, 200,000,000 shares authorized, 15,998,782 (2016) and 14,446,967 (2015) shares issued and outstanding	160	144
Additional paid-in capital	170,757	156,627
Accumulated deficit	(66,193)	(54,163)
Accumulated other comprehensive loss	(11,247)	(13,535)
Total stockholders' equity	93,477	89,073
Total liabilities and stockholders' equity	$ 111,901	$ 107,958

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, 2016	2015
Operating activities		
Net loss	$ (12,030)	$ (24,646)
Adjustments to reconcile net loss to cash used for operations:		
Depreciation and amortization	4,280	3,819
Deferred income taxes	(29)	(269)
Equity-based compensation	1,104	1,244
(Recoveries) provision for bad debts	(256)	144
Loss from disposal of property and equipment	163	87
Amortization of debt issuance costs	204	—
Changes in fair value of contingent consideration	—	(193)
Goodwill impairment	—	4,419
Changes in assets and liabilities, excluding effects of foreign currency translation adjustments:		
Decrease in accounts receivable	4,681	8,145
Decrease (increase) in inventories	43	(9,459)
Decrease in prepaid expenses and other assets	800	468
(Decrease) increase in accounts payable	(1,296)	850
Decrease in accrued expenses and other	(1,259)	(1,386)

liabilities						
Increase in deferred revenue and customer prepayments		1,687			5,770	
Cash used for operating activities		(1,908	)		(11,007	)
Investing activities						
Capital expenditures		(690	)		(4,089	)
Proceeds from sale of property and equipment		52			—	
Increase in restricted cash		—			(330	)
Cash used for investing activities		(638	)		(4,419	)
Financing activities						
Net proceeds from issuance of common stock - Registered direct offering to a related party		12,447			—	
Net proceeds from issuance of common stock - At the market offerings		595			—	
Payments on long-term debt		(102	)		(99	)
Payments on capital and financing leases		(61	)		(264	)
Cash provided by (used for) financing activities		12,879			(363	)
Effect of exchange rate changes on cash and cash equivalents		138			(160	)
Net change in cash and cash equivalents		10,471			(15,949	)
Cash and cash equivalents at beginning of period		19,342			36,202	
Cash and cash equivalents at end of period	$	29,813		$	20,253	
Supplemental disclosure of noncash investing and financing activities						
Property and equipment included in accounts payable	$	15		$	344	

Advance deposits on property and equipment	$	203	$	—
Transfer of internally developed 3D printing machines from inventories to property and equipment for internal use or leasing activities	$	2,666	$	3,495
Transfer of internally developed 3D printing machines from property and equipment to inventories for sale	$	1,276	$	149

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

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The ExOne Company and Subsidiaries

Condensed Statement of Changes in Consolidated Stockholders' Equity (Unaudited)

(in thousands)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity
	Shares	$				
Balance at December 31, 2014	14,417	$144	$154,902	$(28,298)	$(8,203)	$118,545
Net loss	—	—	—	(24,646)	—	(24,646)
Other comprehensive loss	—	—	—	—	(3,854)	(3,854)
Equity-based compensation	—	—	1,244	—	—	1,244
Common stock issued from equity incentive plan	11	—	—	—	—	—
Balance at September 30, 2015	14,428	$144	$156,146	$(52,944)	$(12,057)	$91,289
Balance at December 31, 2015	14,447	$144	$156,627	$(54,163)	$(13,535)	$89,073
Registered direct offering of common stock to a related party, net of issuance costs	1,424	15	12,432	—	—	12,447
At the market offerings of common stock, net of issuance costs	92	1	594	—	—	595
Net loss	—	—	—	(12,030)	—	(12,030)
Other comprehensive income	—	—	—	—	2,288	2,288
Equity-based compensation	—	—	1,104	—	—	1,104
Common stock issued from equity incentive plan	36	—	—	—	—	—
Balance at September 30, 2016	15,999	$160	$170,757	$(66,193)	$(11,247)	$93,477

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

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

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. The condensed consolidated financial statements include the accounts of ExOne, its wholly-owned subsidiaries, ExOne Americas LLC (United States), ExOne GmbH (Germany), ExOne Property GmbH (Germany); ExOne KK (Japan); ExOne Italy S.r.l (Italy); effective in July 2015, ExOne Sweden AB (Sweden) and effective through September 2016, MWT—Gesellschaft für Industrielle Mikrowellentechnik mbH (Germany). Collectively, the consolidated group is referred to as the "Company".

On September 15, 2016, the Company completed a transaction merging its MWT—Gesellschaft für Industrielle Mikrowellentechnik mbH (Germany) subsidiary with and into its ExOne GmbH (Germany) subsidiary. The purpose of this transaction was to further simplify the Company's legal structure. There were no significant accounting or tax related impacts associated with the merger of these wholly owned subsidiaries.

The Company filed a registration statement on Form S-3 (No. 333-203353) with the Securities and Exchange Commission ("SEC") on April 10, 2015. The purpose of the Form S-3 was to register, among other securities, debt securities. Certain subsidiaries of the Company (other than any minor subsidiary) are co-registrants with the Company ("Subsidiary Guarantors"), and the registration statement registered guarantees of debt securities by one or more of the Subsidiary Guarantors. The Subsidiary Guarantors are 100% owned by the Company and any guarantees by the Subsidiary Guarantors will be full and unconditional.

Basis of Presentation

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, 2015 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, 2015, which includes all disclosures required by GAAP.

Recently Issued Accounting Guidance

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs") as issued by the Financial Accounting Standards Board ("FASB"). Recently issued ASUs not listed below were assessed and determined to be either not applicable or are currently expected to have no impact on the consolidated financial statements of the Company.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” This ASU created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersedes virtually all existing revenue recognition requirements and guidance. This framework is expected to provide 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. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers: Deferral of the Effective Date,” which deferred the effective date of this guidance for the Company until January 1, 2019, or January 1, 2018, in the event that the Company no longer qualifies as an EGC. Early adoption is permitted, but the Company may adopt the changes no earlier than January 1, 2017 (regardless of EGC status). In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers: Principal versus Agent Considerations”, which serves to clarify the implementation guidance issued in ASU 2014-09 with respect to principal versus agent considerations in an arrangement. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing”, which serves to clarify the implementation guidance issued in ASU 2014-09 with respect to identifying performance obligations in an arrangement and accounting for licensing arrangements. In May 2016, the FASB issued ASU 2016-11, “Revenue Recognition and Derivatives and

Hedging: Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting", which serves to rescind certain previously issued SEC Staff Observer comments upon adoption of ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients", which serves to clarify certain technical aspects and transition guidance associated with ASU 2014-09. Management is currently evaluating the potential impact of these collective changes on the consolidated financial statements of the Company.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern: 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, this ASU requires 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. This ASU becomes effective for the Company on December 31, 2016. Subsequent to adoption, this ASU 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.

In April 2015, the FASB issued ASU 2015-03, "Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." Further, in August 2015, the FASB issued ASU 2015-15, "Interest – Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." This ASU requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset, with an exception for line of credit arrangements. Amortization of debt issuance costs will continue to be reported as interest expense. This ASU becomes effective for the Company on December 31, 2016. Early adoption is permitted. The ASU will be applied retrospectively to each prior period presented. Management has determined that the adoption of this ASU will not have a significant impact on the consolidated financial statements of the Company.

In July 2015, the FASB issued ASU 2015-11, "Inventory: Simplifying the Measurement of Inventory." This ASU requires inventories to be measured at the lower of cost and net realizable value, with net realizable value defined as the estimated selling price in the normal course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU becomes effective for the Company on January 1, 2017. Early adoption is permitted. The ASU will be applied prospectively in the interim or annual period adopted. Management has determined that the adoption of this ASU will not have an impact on the consolidated financial statements of the Company.

In February 2016, the FASB issued ASU 2016-02, "Leases." As a result of this ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. As a result of this ASU, lessor accounting is largely unchanged and lessees will no longer be

provided with a source of off-balance sheet financing. This ASU becomes effective for the Company on January 1, 2019. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Management is currently evaluating the potential impact of this ASU on the consolidated financial statements of the Company.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies certain aspects of accounting for equity-based compensation, including (i) accounting for income taxes, (ii) accounting for pre-vesting forfeitures and (iii) certain classification and disclosure elements. This ASU becomes effective for the Company on January 1, 2018. Early adoption is permitted. Management is currently evaluating the potential impact of this ASU on the consolidated financial statements of the Company.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.” This ASU is intended to reduce diversity in practice in how certain cash receipts and payments are presented and classified in the statement of cash flows. The standard provides guidance in a number of situations including, among others, settlement

of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The ASU also provides guidance for classifying cash receipts and payments that have aspects of more than one class of cash flows. This ASU becomes effective for the Company on January 1, 2019. Early adoption is permitted. Management is currently evaluating the potential impact of this ASU on the consolidated financial statements of the Company.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory.” This ASU modifies existing guidance and is intended to reduce diversity in practice with respect to the accounting for the income tax consequences of intra-entity transfers of assets. The ASU indicates that the current exception to income tax accounting that requires companies to defer the income tax effects of certain intercompany transactions would apply only to intercompany inventory transactions. That is, the exception would no longer apply to intercompany sales and transfers of other assets (e.g., intangible assets). Under the existing exception, income tax expense associated with intra-entity profits in an intercompany sale or transfer of assets is eliminated from earnings. Instead, that cost is deferred and recorded on the balance sheet (e.g., as a prepaid asset) until the assets leave the consolidated group. Similarly, the entity is prohibited from recognizing deferred tax assets for the increases in tax bases due to the intercompany sale or transfer. This ASU becomes effective for the Company on January 1, 2019. Early adoption is permitted. Management is currently evaluating the potential impact of this ASU on the consolidated financial statements of the Company.

In October 2016, the FASB issued ASU 2016-17, “Consolidation: Interests Held through Related Parties That Are under Common Control.” This ASU modifies existing guidance with respect to how a decision maker that holds an indirect interest in a variable interest entity (“VIE”) through a common control party determines whether it is the primary beneficiary of the VIE as part of the analysis of whether the VIE would need to be consolidated. Under the ASU, a decision maker would need to consider only its proportionate indirect interest in the VIE held through a common control party. Previous guidance had required the decision maker to treat the common control party’s interest in the VIE as if the decision maker held the interest itself. As a result of the ASU, in certain cases, previous consolidation conclusions may change. This ASU becomes effective for the Company on January 1, 2017, with retrospective application to January 1, 2016. The Company does not have significant involvement with entities subject to consolidation considerations impacted by VIE model factors. As a result, management does not expect this ASU to have a material impact on the consolidated financial statements of the Company.

Note 2. Liquidity

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 of common stock were sold by the Company and 611,667 shares of common stock 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 of common stock were sold by the Company and 1,948,400 shares of common stock 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).

On January 8, 2016, the Company announced that it had entered into an At Market Issuance Sales Agreement (“ATM”) with FBR Capital Markets & Co. (“FBR”) and MLV & Co. LLC (“MLV”) pursuant to which FBR and MLV agreed to act as distribution agents in the sale of up to $50,000 in the aggregate of ExOne common stock in “at the market offerings” as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”). Both FBR and MLV have been identified as related parties to the Company on the basis of significant influence in that a member of the Board of Directors of the Company also serves as a member of the Board of Directors of FBR (which controls MLV). The

terms of the ATM were reviewed and approved by a sub-committee of the Board of Directors of the Company (which included each of the members of the Audit Committee of the Board of Directors except for the identified director who also holds a position on the Board of Directors of FBR). Terms of the ATM require a 3.0% commission on the sale of common stock under the ATM and a reimbursement of certain legal expenses of $25. During the quarter ended March 31, 2016, the Company sold 91,940 shares of common stock under the ATM at a weighted average selling price of approximately $9.17 per share resulting in gross proceeds to the Company of approximately $843. Net proceeds to the Company from the sale of common stock under the ATM during the quarter ended March 31, 2016 were approximately $595 (after deducting offering costs of approximately $248, including certain legal, accounting and administrative costs associated with the ATM, of which approximately $50 was paid to FBR or MLV relating to the aforementioned reimbursement of certain legal expenses and commissions on the sale of common stock under the ATM). There were no sales of shares of common stock under the ATM during any periods subsequent to the quarter ended March 31, 2016.

The Company's ongoing ability to issue and sell shares of common stock under the ATM is dependent on its ability to use its shelf Registration Statement on Form S-3 (the "Shelf"), as filed on April 10, 2015. As a result of the Company's delinquent filing of its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015, the Company's offerings and sales under the Shelf

(and therefore the ATM) were suspended. On August 18, 2016, the Company filed a post-effective amendment to its Shelf. As a result of the post-effective amendment filing, the Company is now eligible to re-activate the ATM.

On January 11, 2016, the Company announced that it had entered into a subscription agreement with Rockwell Forest Products, Inc. and S. Kent Rockwell for the registered direct offering and sale of 1,423,877 shares of ExOne common stock at a per share price of $9.13 (a $0.50 premium from the closing price on the close of business on January 8, 2016). The terms of this transaction were reviewed and approved by a sub-committee of independent members of the Board of Directors of the Company (which included each of the members of the Audit Committee of the Board of Directors). The sub-committee of independent members of the Board of Directors of the Company were advised on the transaction by an independent financial advisor and independent legal counsel. Concurrent with the approval of this sale of common stock under the terms identified, a separate sub-committee of independent members of the Board of Directors of the Company approved the termination of the Company's revolving credit facility with RHI Investments, LLC. Following completion of the registered direct offering on January 13, 2016, the Company received gross proceeds of approximately $13,000. Net proceeds to the Company from the sale of common stock in the registered direct offering were approximately $12,447 (after deducting offering costs of approximately $553).

The Company has incurred a net loss in each of its annual periods since its inception. As shown in the accompanying condensed statement of consolidated operations and comprehensive loss, the Company incurred a net loss of approximately $3,611 and $12,030 for the quarter and nine months ended September 30, 2016, respectively. As noted above, the Company has received cumulative unrestricted net proceeds from the sale of its common stock of approximately $170,353 to fund its operations. At September 30, 2016, the Company had approximately $29,813 in cash and cash equivalents.

Management believes that the Company's existing capital resources will be sufficient to support the Company's operating plan. If management anticipates that the Company's actual results will differ from its operating plan, management believes it has sufficient capabilities to enact cost savings measures to preserve capital. Further, the Company may seek to raise additional capital to support its growth through additional debt, equity or other alternatives or a combination thereof.

Note 3. 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,	
Foreign currency translation adjustments	2016	2015	2016	2015
Balance at beginning of period	$(11,736)	$(12,866)	$(13,535)	$(8,203)
Other comprehensive income (loss)	489	809	2,288	(3,854)
Balance at end of period	$(11,247)	$(12,057)	$(11,247)	$(12,057)

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 (United States dollar) and (ii) certain long-term intercompany transactions between subsidiaries for which settlement is not planned or anticipated in the foreseeable future.

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 4. Loss Per Share

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

As the Company incurred a net loss during each of the quarters and nine months ended September 30, 2016 and 2015, 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 (317,637 – 2016 and 204,470 – 2015) and unvested restricted stock issued (112,504 – 2016 and 96,003 – 2015), was anti-dilutive.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$(3,611)	$(10,077)	$(12,030)	$(24,646)
Weighted average shares outstanding (basic and diluted)	15,997,146	14,428,634	15,912,628	14,426,855
Net loss per common share:				
Basic	$(0.23)	$(0.70)	$(0.76)	$(1.71)
Diluted	$(0.23)	$(0.70)	$(0.76)	$(1.71)

Note 5. Inventories

Inventories consist of the following:

	September 30, 2016	December 31, 2015
Raw materials and components	$ 8,931	$ 9,467
Work in process	5,855	6,048
Finished goods	4,246	4,324
	$ 19,032	$ 19,839

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

At September 30, 2016 and December 31, 2015, the allowance for slow-moving and obsolete inventories was approximately $1,583 and $1,909, respectively, and has been reflected as a reduction to inventories (principally raw materials and components). Included in the allowance for slow-moving and obsolete inventories at December 31, 2015, is approximately $507 associated with the Company’s laser micromachining product line which was discontinued at the end of 2014. During the quarter ended June 30, 2016, the Company sold its remaining laser micromachining inventories, eliminating the previously recorded reserve.

Note 6. Restructuring

In April 2016, the Company committed to a plan to consolidate certain of its 3D printing operations in its Auburn, Washington facility into its North Las Vegas, Nevada facility and reorganize certain of its corporate departments as part of its 2016 operating plan. As a result of these actions, during the quarter ended June 30, 2016, the Company incurred a net charge of approximately $170 including, $57 associated with involuntary employee terminations and $113 associated with the disposal of certain property and equipment related to the Auburn, Washington facility which was either sold or abandoned. This net charge was split between cost of sales ($129), research and development ($2)

and selling, general and administrative expenses ($39) in the accompanying condensed statement of consolidated operations and comprehensive loss. In addition to the net charge incurred by the Company in connection with this plan, the Company also has an operating lease commitment for the Auburn, Washington facility with a lease term through December 2018. At the time of closure of this facility, the Company was able to secure a firmly committed sublease arrangement with a third party which fully offsets its remaining contractual operating lease liability. There are no additional charges expected to be incurred associated with this plan in future periods. All amounts associated with involuntary employee terminations have been settled by the Company.

Note 7. Impairment

During the quarter ended September 30, 2016, as a result of continued operating losses and cash flow deficiencies, the Company identified a triggering event requiring a test for the recoverability of long-lived assets held for use at the asset group level. Assessing the recoverability of long-lived assets held for use requires significant judgments and estimates by management.

For purposes of testing long-lived assets for recoverability, the Company operates as three separate asset groups: United States, Europe and Japan. In assessing the recoverability of long-lived assets held for use, the Company determined the carrying amount of long-lived assets held for use to be in excess of the estimated future undiscounted net cash flows of the related assets. The Company proceeded to determine the fair value of its long-lived assets held for use, principally through use of the market approach. The Company’s use of the market approach included consideration of market transactions for comparable assets. Management concluded that the fair value of long-lived assets held for use exceeded their carrying value and as such no impairment loss was recorded.

A significant decrease in the market price of a long-lived asset, adverse change in the use or condition of a long-lived asset, adverse change in the business climate or legal or regulatory factors impacting a long-lived asset and continued operating losses and cash flow deficiencies associated with a long-lived asset, among other indicators, could cause a future assessment to be performed which may result in an impairment of long-lived assets held for use, resulting in a material adverse effect on the financial position and results of operations of the Company.

During the quarter ended September 30, 2015, as a result of the significant decline in the market capitalization of the Company and continued operating losses and cash flow deficiencies, the Company identified a triggering event requiring both (i) a test for the recoverability of long-lived assets held for use at the asset group level and (ii) a test for impairment of goodwill at the reporting unit level. Assessing the recoverability of long-lived assets held for use and goodwill requires significant judgments and estimates by management.

In assessing the recoverability of long-lived assets held for use, the Company determined the carrying amount of long-lived assets held for use to be in excess of the estimated future undiscounted net cash flows of the related assets. The Company proceeded to determine the fair value of its long-lived assets held for use, principally through use of the market approach. The Company's use of the market approach included consideration of market transactions for comparable assets. Management concluded that the fair value of long-lived assets held for use exceeded their carrying value and as such no impairment loss was recorded.

The Company subsequently performed an impairment test for goodwill. For purposes of testing goodwill for impairment, the Company operates as a singular reporting unit. In assessing goodwill for impairment, the Company compared the fair value of its reporting unit to its carrying value. The Company determined the fair value of its reporting unit through a combination of the market approach and income approach. The Company's use of the market approach included consideration of the Company's market capitalization along with consideration of other factors that could influence the use of market capitalization as a fair value estimate, including premiums or discounts to be applied based on both market and entity-specific data. The Company's use of the income approach included consideration of present value techniques, principally the use of a discounted cash flow model. In performing the impairment test for goodwill, the Company determined the carrying amount of goodwill to be in excess of the implied fair value of goodwill. As a result, the Company recognized an impairment loss of approximately $4,419 associated with goodwill during the quarter ended September 30, 2015.

Note 8. 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.

In the course of its normal operations, ExOne GmbH issues guarantees and letters of credit to third parties in connection with certain commercial transactions requiring security. ExOne GmbH maintains a credit facility agreement with a German bank which provides for various short-term financings in the form of overdraft credit, guarantees, letters of credit and collateral security for commercial transactions for approximately $1,500. In addition, ExOne GmbH may use the credit facility agreement for short-term, fixed-rate loans in minimum increments of approximately $100 with minimum terms of at least thirty days. The overdraft credit interest rate is fixed at 10.2% while the interest rate associated with commercial transactions requiring security (guarantees, letters of credit or collateral security) is fixed at 1.75%. The credit facility agreement has an indefinite term and is subject to cancellation by either party at any time upon repayment of amounts outstanding or expiration of commercial transactions requiring security. There is no commitment fee associated with the credit facility agreement. There are no negative covenants associated with the credit facility agreement. The credit facility agreement has been guaranteed by

the Company. At September 30, 2016 and December 31, 2015, there were no outstanding borrowings in the form of overdraft credit or short-term loans under the credit facility agreement. At September 30, 2016, total outstanding guarantees and letters of credit issued by ExOne GmbH were approximately $1,277 with expiration dates ranging from November 2016 through July 2018. At December 31, 2015, total outstanding guarantees and letters of credit issued by ExOne GmbH were approximately $685.

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 1,992,241 shares, subject to certain adjustments.

The following table summarizes the total equity-based compensation expense recognized for awards issued under the Plan:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Equity-based compensation expense recognized:				
Incentive stock options	$347	$185	$490	$566
Restricted stock	203	237	614	678
Total equity-based compensation expense before income taxes	550	422	1,104	1,244
Benefit for income taxes*	—	—	—	—
Total equity-based compensation expense net of income taxes	$550	$422	$1,104	$1,244

* The benefit for income taxes from equity-based compensation for each of the periods presented has been determined to be $0 based on valuation allowances against net deferred tax assets.

At September 30, 2016, total future compensation expense related to unvested awards yet to be recognized by the Company was approximately $1,000 for incentive stock options ("ISOs") and $1,110 for restricted stock. 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 2.0 years.

On August 12, 2016, the Company issued 39,000 ISOs to certain members of management. Each of the ISOs issued vests in one-third increments on the first, second and third anniversaries of the date of grant. Separately, on August 19, 2016, the Company issued 100,000 ISOs to the newly appointed CEO of the Company. For the August 19, 2016, issuance, one-third of the ISOs issued vested immediately. The remaining two-thirds vests on the first and second anniversaries of the date of grant. The fair value of ISOs issued was estimated on the respective dates of grant using the Black-Scholes option pricing model with the following assumptions:

	August 19, 2016	August 12, 2016
Weighted average fair value per ISO	$7.97	$8.07
Volatility	66.24%	66.43%
Average risk-free interest rate	1.20 %	1.18 %
Dividend yield	0.00 %	0.00 %
Expected term (years)	5.5	6.0

Expected volatility has been estimated based on historical volatilities of certain peer group companies over the expected term of the awards, due to a lack of historical stock prices for a period at least equal to the expected term of issued awards. The average risk-free rate is based on a weighted average yield curve of risk-free interest rates consistent with the expected term of the awards. Expected dividend yield is based on historical dividend data as well as future expectations. Expected term has been calculated using the simplified method as the Company does not have sufficient historical exercise experience upon which to base an estimate.

The activity for ISOs was as follows:

Nine Months Ended September 30,

	2016			2015		
	Number of ISOs	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Number of ISOs	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	210,970	$ 17.43	$ 10.67	215,137	$ 17.35	$ 10.62
ISOs granted	139,000	$ 13.72	$ 8.00	—	$ —	$ —
ISOs exercised	—	$ —	$ —	—	$ —	$ —
ISOs forfeited	(6,001)	$ 15.74	$ 9.60	(9,834)	$ 17.08	$ 10.45
ISOs expired	(26,332)	$ 17.74	$ 10.87	(833)	$ 18.00	$ 11.03
Outstanding at end of period	317,637	$ 15.77	$ 9.48	204,470	$ 17.43	$ 10.67
ISOs exercisable at end of period	178,304	$ 17.01	$ 10.32	95,639	$ 18.00	$ 11.03
ISOs expected to vest at end of period	132,908	$ 14.18	$ 8.38	100,128	$ 16.85	$ 10.30

At September 30, 2016, the aggregate intrinsic value associated with ISOs exercisable was approximately $47. At September 30, 2016, the aggregate intrinsic value associated with ISOs expected to vest was approximately $155. The weighted average remaining contractual term of ISOs exercisable and expected to vest at September 30, 2016, was approximately 7.4 years and 9.5 years, respectively. There were no ISO exercises during any of the periods presented.

The activity for restricted stock was as follows:

	Nine Months Ended September 30,			
	2016		2015	
	Shares of Restricted Stock	Weighted Average Grant Date Fair Value	Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	77,670	$ 19.57	80,834	$ 22.78
Restricted stock granted	74,500	$ 11.78	26,000	$ 13.23
Restricted stock vested	(35,998)	$ 19.25	(10,831)	$ 34.80
Restricted stock forfeited	(3,668)	$ 19.46	—	$ —
Outstanding at end of period	112,504	$ 14.52	96,003	$ 18.84
Restricted stock expected to vest at end of period	112,504	$ 14.52	96,003	$ 18.84

* Restricted stock vesting during the nine months ended September 30, 2016 and 2015, had a fair value of approximately $351 and $158, respectively.

Note 10. Income Taxes

The provision (benefit) for income taxes for the quarters ended September 30, 2016 and 2015 was $25 and ($41), respectively. The provision (benefit) for income taxes for the nine months ended September 30, 2016 and 2015 was $43 and ($200), respectively. The Company has completed a discrete period computation of its benefit 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 quarters ended September 30, 2016 and 2015 was 0.7% (provision on a loss) and 0.4% (benefit on a loss), respectively. The effective tax rate for the nine months ended September 30, 2016 and 2015 was 0.4% (provision on a loss) and 0.8% (benefit on a loss), respectively. The effective tax rate differs from the United States 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 in 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, 2016 and December 31, 2015, the liability for uncertain tax positions was

approximately $803 and $781, respectively, and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet. At September 30, 2016 and December 31, 2015, the Company had an additional liability for uncertain tax positions related to its ExOne GmbH (Germany) subsidiary of approximately $234 and $195, respectively, which were fully offset against net operating loss carryforwards. At September 30, 2016 and December 31, 2015, the Company had an additional liability for uncertain tax positions related to its ExOne KK (Japan) subsidiary of approximately $471 and $285, respectively, which were fully offset against net operating loss carryforwards. At September 30, 2016, the Company's ExOne GmbH (2010-2013) and ExOne Property GmbH (2013) subsidiaries were under examination by tax authorities.

Note 11. 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; and

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.

At September 30, 2016 and December 31, 2015, the Company had no financial instruments (assets or liabilities) measured at fair value on a recurring basis.

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, 2016	December 31,