Operator: Greetings, and welcome to the ExOne Company Second Quarter 2013 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Deborah Pawlowski, Investor Relations for ExOne. Thank you Ms. Pawlowski, you may now begin.

Deborah Pawlowski: Thank you, Manny, and good morning everyone. We certainly appreciate your time today for ExOne's second quarter and first half year ended June 30, 2013 conference call.

On the call with me are Kent Rockwell, Chairman and Chief Executive Officer; David Burns, President and Chief Operating Officer; and John Irvin, Chief Financial Officer.

We will be reviewing the results for the quarter and six-month period that were published in the press release that went out after the market close yesterday. If you don't have that press release, it is available on our website at www.exone.com. The slides that will accompany our discussion today are also posted there.

The Safe Harbor statement is noted in full on slide two. As you may be aware, we may make some forward-looking statements during this discussion as well as during the Q&A. These statements apply to the future events and are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what was stated here today. These risks and uncertainties and other factors are provided in the earnings release as well as other documents filed by the Company with the Securities and Exchange Commission. These documents can be found at the Company's website or at sec.gov.

Kent is going to get this discussion going here today. With that, I will turn it over to Kent.

Kent Rockwell: Thank you, Debbie, and good morning to our investors. Welcome to our conference call. Today I am going to make my comments mostly at the end after David and John have reviewed the quarterly performance of the Company. I would like to say at the outset, just from an overview point of view, that from a management perspective of this Company, we were pleased with the quarterly report and our performance in this quarter.

We hit the expectations that we had set for ourselves. We were pretty close to our consensus that the analysts have provided on the Street, and we think that we're in a very positive and growing mode, and that the future for ExOne is still quite positive. So with that, I'm going to let David make his comments and I'll pick it up at the end.

David Burns: Good morning everyone. This is David Burns, and I'd also like to welcome you to our call. We're gratified by the continuing interest in our Company, and I want to remind people as we begin talking about our results, the core of who ExOne is. We are a manufacturing technology Company, and of course, we work in the three-dimensional printing, or additive manufacturing space. By nature, because of the customers that we deal with, that being the industrial base around the world, we tend to have our planning and execution in very much of an annual cycle.

It clearly has seasonality to it in terms of calendar year, and that's the way we see the business developing, so as we began thinking about talking this morning, we almost think of this a little bit like a half-time report, and we're about half way through 2013. I want to talk about where we think we are relative to the plan we set up for this year.

On Slide 5, you can see the revenue report for the second quarter and the first half. You can see the split between recurring and non-recurring revenue; that which we call machines and PSC.
You may recall that we have said, as an objective, that we would like our business to be about 50/50 between machines and PSCs, and on a regional basis we would like our business to rollout to be about one third in Asia, one third in Europe, and one third in the Americas.

The most appropriate point to look at on this slide is probably the first half, which is at the bottom half of the slide. That means we are at $17.2 million in revenue. About 60% of that has come from the machine business and 40% from the recurring side and the splits you can see are about 49% in Asia, 22% in Europe and 29% in the Americas.

Not unusual, the business is lumpy when we get machine sales in a region, one region or the other will spike a little bit, but the business is developing about as we would have hoped.

Moving to Slide 6, a quick summary of our machine sales in the quarter and the first half. You can see that we’ve exceeded $10 million in machine revenue in the first half, largely built on the back of sales of our S-Max machines, our largest print platform, the Max platform. We expected the first half of the year to be strongly focused on the Max platform, and we expect the second half of the year to have contributions from the other platforms as well. The Print and the Flex platforms are beginning to build in.

You may recall that we introduced the Flex platform at our machine tool show in September of 2012, and we had planned on building and shipping five machines this year with the first shipment being third quarter. We’re on schedule to make that shipment and we’ve sold three of five Flex machines that we’re building for the year.

As I said, the other platforms will contribute a little bit more as the year goes on, especially as the Print platform begins to build in the fourth quarter. We’ve had a good spread around the globe for both customer applications and machine sales. You may have noted in the press release that we sold one machine in each of a variety of geographies in the second quarter. So, machines sales are developing exactly as we would have expected for the first half.

On slide 7, the recurring revenue side, you can see our growth for the quarter and the half. We’re up about 20% year-over-year for the first half in terms of revenue on the recurring side. You may recall the recurring revenue is a composite between our parts manufacturing at our Production Service Centers, our consumables business, as well as our service business and spare parts business.

During the first half of 2013, the recurring revenue has been entirely based on the five Production Service Centers that had opened at the end of last year. We’re getting, in a sense, “same store growth.” We spent part of 2012 refurbishing and reinvigorating our Production Service Centers with our latest technology, machines that were faster and had more production capacity, and we’re seeing the fruits of that in the first half. We’re going to talk a little bit more about the expansion of the Production Service Center network in a moment, but 20% growth is reasonable. We expect the year-over-year growth in the second half, meaning comparing the second half of 2012 to the second half of 2013, to be greater than the 20% that we saw in the first half.

The next slide we titled Second Half Preview, so in the sense that this is the half-time report, where do we think we are as we head into the second half?

We’ve given guidance about overall revenue for the year. Assuming that we achieve what we see as the necessary growth on the Production Service Center side, we have enough machine capacity to reach the forecast that we’ve created for ourselves for 2013 in terms of total revenue. So, we have sufficient machine production capacity in place to meet our plan.
Secondly, for every machine sale that's required to meet that plan, we do have a customer identified today. We have an active sales process in place for each of those customers. In fact, we have more programs than we would need to flush out the year, but these are million dollar programs. We're dealing with industrial customers that have fairly long purchase cycles, and so, while we have confidence that we're going to reach our overall revenue target, there is much to do yet in terms of securing and shipping those orders. Be assured that we have the capacity in place to reach our revenue targets, and we have the customer base in place necessary to support our total machine plan for the year.

The one difference that we see relative to where we were some months ago is that we do see a shifting of revenues more heavily toward the fourth quarter. We had originally said that we were going to be a 35% or 40% first-half Company and 60% to 65% second-half Company. That is bearing out in fact as the split, but the split between third and fourth quarter, as we see now, are weighted more heavily toward the fourth quarter.

And, the final thing that I would say it has occurred to us over the last few months is that with the rapid development of ExOne and its technologies, we believe that we are really well-positioned to help industrial customers transform their businesses. The part that surprised us a little bit as we've gotten greater market penetration around the world, is that for many customers, although they're enthusiastic and very open to the implementation and deployment of our technologies, some are struggling either with the precursor pieces of the process necessary to implement our technology, or the post-process necessary to implement our technology. While we feel we've made dramatic progress in terms of our ability to appeal to the industrial base in terms of quality and of the cost-per-piece we're manufacturing, we are finding customers that are struggling a little bit to find ways to implement what we can sell them. An example would be that we have very active business in the foundry industry around the world. Well, many foundries don't, in fact, have computer-aided design capabilities on the front-end. While we walk in and say there's a great digital tool we can use to help improve your business, some of the response is, but we don't even use computer-aided design to start with. We don't even have digital designs to begin with.

On the back end, some of the mould designs we're capable of creating for the Foundry Industry can make lighter castings, they can make stronger castings, but some foundries, we have found, don't even have the capabilities to pour the casting moulds that we can create.

In a sense, the pre-print and post-print parts of the process need shoring up, and we as a management team are talking actively about what we need to do about that to make sure that we can deploy our technologies as effectively as we possibly can.

So, moving to the last slide of my section, Slide 9, I just want to review one more time, the four branches of our operational plan for 2013. When we went out for our recapitalization in early 2013, we regularly talked about these as our four major areas of strategic thrust: enlarging our PSC network, expanding our machine manufacturing capacity, increasing the range of our material offerings, and growing our sales and distribution network. We had a very effective capital raise, and if you've been watching the series of press releases, you may know some of what I am about to say here, but let's touch on each of these four points.

First off, in terms of enlarging our PSC network, we announced a few weeks ago that we are opening our sixth Production Service Center in Auburn, Washington. You may ask why Auburn and the answer is there is a clustering of foundries up in the Northwest. Many of them support both the marine industry and the aerospace industry, and it's a very logical place for us to have a Production Service Center within some miles of them. There is a customer base that is very interested in receiving cores and moulds that we print on our machines, and of course, as we talked before, trucking distance is important when you're trying to service customers with 3D printed parts.
We will be announcing, shortly, another PSC to be opened here in the United States. We are in the process of negotiating for both the land and the building there, and the location will be in the second hub of foundry activity here in the United States.

We have identified, in Western Japan, a site for our second Japanese Production Service Center. By nature, when we get outside of the United States, the implementation of Production Service Centers can often take a little bit longer because of either business processes that we need to acclimate ourselves to or legal requirements. But we are proceeding apace to open a second Japanese Production Service Center. We expect it to be open late first quarter, early second quarter, of 2014 and we expect to be announcing it, at least location-wise, within the next few months.

In terms of expanding our machine manufacturing capacity, we have purchased land in Germany not too far from our existing set of facilities in Germany. We've spoken often about the fact that we're in five distinctive facilities in Germany today. That was an evolutionary process of acquiring space as we needed it, and we desperately need to get into a single unified space. We've purchased the land, we have engaged a building contractor, and we're in the process of settling the building contract. At this point, we expect to be open in Germany on our new facility in third quarter of 2014, and of course, that is a significant spend for us in terms of the initial raise that we did.

In terms of increasing the range of our material offerings, again you may have seen through the press releases that we are now offering infiltrated iron as a print material. We are also offering bonded tungsten; let me pause there for a second. Bonded tungsten is an example of how and why the deployment of 3D printing can really change the way industrial products are made. We have partnered with a customer outside of Cleveland, rp+m. They are very active in radiation shielding, which may sound as if it's sort of a niche thing, and it is, but they are one of the United States' largest providers of radiation shielding. They discovered that if we print tungsten and then bond it with a certain chemical binder, that they can get very, very strong custom-made radiation shields which are necessary both in the defense industry and the medical industry. We anticipate that we're going to do much, much more business with rp+m. Again, I want to just use this as an example. When you sit down and you say, how would you make this really uniquely shaped thing that's really hard to make any other way, you can make it with 3D printing. And when we partner together with a customer and we do a material development, good things can happen. Therefore, rp+m has bought one of our M-Flex machines, and will be taking delivery of it here before the year is out.

We've also announced two additions to our foundry side, one is using a phenolic binder and a ceramic substrate material, and the other was using a sodium silicate binder. Both of these are advances that allow our foundry offerings to be more and more environmentally friendly, in many cases to offer parts that are stronger and have higher heat resistance. And when we're in a casting world where we're trying to get more precise castings, new binder and new substrate combinations are very important to us.

And finally, in terms of the growth of our sales and distribution network, we have been growing our core sales group. We now have 14 people that are fulltime in the sales function around the world, and we're regularly identifying territories where we need support and are adding resources. At the same time, you may have seen the announcement that in partnership with the Association for Manufacturing Technology (FASMT), we are opening sales offices in Shanghai and in Brazil. Those will be ExOne employees that are housed inside of technical centers that the AMT runs. Those people will be directly involved with sales, and at the same time, will be interfacing because we anticipate also using distributors in both countries, and we need staff that is on the ground in the country interfacing with the distributors every day.

So, we count our current sales group to be at 16, and if you recall our early discussions, we talked about growing from nine back some months ago and today we are 16 with some opportunities to grow yet.
So, with all of that, let's like to turn it over to John Irvin who's going to review the financial results from the second quarter. John?

**John Irvin:** Thank you David, and good morning everyone. Turning to Slide 11, I'd like to review our second quarter and the first half of the 2013 financial results. David covered revenue, so I'll start with the gross profit and the gross margin review.

For the second quarter 2013, gross profit was $4.2 million, representing a 45.3% gross margin. This compares to last year's $1.5 million of gross profit, or 32.6% of sales. The improvement in both profit and margin was driven by the increased machine volume as well as the sales mix. Our year-to-date numbers show us the similar trend with our first half of 2013 recording a $7.0 million gross profit, or 40.9% of sales compared with $2.3 million of gross profit year-to-date in 2012, or 31.6% of sales.

So, turn to Slide 12 please. Let me take a minute to go through our OpEx, or operating expenses. For the second quarter of 2013, OpEx were $5.2 million, which consisted of $3.9 million of SG&A expenses and $1.3 million of R&D expenses. This compares with operating expenses of $4.6 million in the second quarter 2012, which consisted of $4.3 million of SG&A and $300,000 of R&D.

While the current year's quarterly SG&A actually went down compared with the prior year's quarter, last year's included a $1.8 million equity-based compensation charge. If you isolate that charge, the other operating SG&A expenses actually went up, as expected, by $1.4 million, driven by the investments we have been making to grow our business. These aggressive investments include hiring personnel, both inside and outside sales staff as David has mentioned, other support cost, and sales commissions on the higher revenue.

Our R&D went up by $1.0 million reflecting the ongoing activities of our ExMAL unit, including those activities associated with our recently announced introductions of iron infiltrated with bronze and bonded tungsten as our two latest and newest 3D printed materials. In addition, there are two new binder solutions and other materials that are currently in various stages of development.

For the year-to-date 2013 period, OpEx were $9.6 million compared with $6.8 million for the prior period. The increase includes investments that support our growth.

Finally, turn to Slide 13, and as usual let me touch on our balance sheet. At June 30th, we had $64.6 million of cash compared with $71 million at March 31st. Our total outstanding debt was $3.5 million at June 30th compared with $5 million at March 31st, and our stockholders' equity stood at $84.2 million at the end of second quarter. As I've previously stated, our plan is to invest approximately $40 million to $50 million during 2013 and 2014 to expand our global manufacturing capacity, our PSC development, and other strategic initiatives. This includes $20 million for the recently announced expansion and consolidation of our German operations.

Turning to Slide 14, let me review the guidance for 2013 that we clarified in our earnings report last night. We're currently expecting to achieve 2013 revenue toward the lower end of our guidance range, which was $48 million to $52 million. That expectation is based on the fact that we don't anticipate any further sales of our micro machines, also known as our laser drilling machines, during the remainder of 2013, and the timing of our year-end shipments which can be volatile at times. Additionally, we've experienced the impact of the weakening yen to the U.S. dollar upon the translation of our Japanese financial statements.

With respect to gross margin, we believe we'd be at the high end of our guidance range, which is 42% to 46%, and with our aggressive investments to support our growth, we currently believe that we'll realize the higher end of our $18 million to $21 million range for operating expenses.
So with that, let me turn the discussion back to Kent who will review our long-term targets.

Kent Rockwell: I’d like to refer back first to David’s graph about the first half. When you think about our business, you must remember that we are essentially a global Company, and that our revenues, in the first half, were 49% out of Asia and with the balance being split between the Americas and Europe. We are subject to the vagrancies of the global economy and I want to address that for just a minute.

In Asia, we see a fairly positive market when we consider China, and the opportunities that we envision there. As David said, we have opened an office in Shanghai now and David will be fortunate enough to be going back to China for two weeks here, in the next week or so, to pursue some additional activities there.

In Japan, we did have the impact of the devaluation, and had that not occurred, we would have actually exceeded the consensus in the quarter, and that was unanticipated. The machine that was sold there actually was priced before we had started the underwriting. So, we wouldn’t change the price at that point.

However, the Japanese market has been, essentially, a little flat for us in the PSC level because we’ve changed out machines there, and there’s been a little disruption in our operations during that period of time. They do have a brand new S-Max that’s been put into service. They have a brand new S-Print, and we’ve had very positive results with our customers using our new phenolic binder there. The demand for that and the output in Japan should certainly increase in the PSC side, and I believe that the opportunities for additional sales in the Japanese market are positive, as well, and we’re also working in other Asian locations for machine sales at this time.

According to the AAP report this morning, the Eurozone has gone through the longest-term recession, and it’s officially ended today. I can say that from our perspective, there’s some truth to that. We’ve seen the Eurozone very flat for us in the last six months where, essentially in the years past, that was our strongest market.

The machine sales in Europe this period have been very slow and our PSC business actually backed off a little, as Europe simply constrained their capital spending across the board. We are seeing increases there now. The activity’s up modestly, and we are looking for increased activity in the second half.

In the Americas we have improving demand. We are selling machines in the U.S. now. And I think that PSC business, which was a little slow it’s our experience something about the cyclicalities of that between the first and second quarters it’s but we are experiencing, in this quarter, increased activity at the PSCs at all levels, and we anticipate seeing that continue through the balance of the year. Canada has been a good market for us and very consistent, similar to the U.S.

We have a lot of opportunity. While we're not generating revenue yet, we came back from South America and a couple of shows down there. We intend to invest in South America later this year, and the demand for our products and services is extremely positive. So, it’s just a question of getting in there and setting it up right. It takes a little time going into Brazil or any of the South American countries to get your positioning right, but we’re very enthusiastic that it will be a growing opportunity for us.

Global demand overall for 3D printing is, in my opinion, extremely positive and growing. We’re seeing more customer acceptance in the domestic market here, and we have a lot more customer activity. As David said, we have a name on every single machine that we can ship, so it becomes not an issue for us of trying to generate more demand at this point, it’s really, Can we execute on the demand that we have to get us to this next level of performance?
Execution is the key for us. When we think about execution, it’s not just about delivery, it's about executing on getting the right people in place, and we've increased our employment from when we started the underwriting. We were at about 136 people then. We're now up to maybe 155 and including temps, we're now up to 202. So we've increased over 30%, and anytime you do that there's a training period when we're trying to train service and marketing personnel. You almost can't expect to see anything from them for the first four to six months because the technology that they're learning is something that's new, and their ability to get in and translated into the marketplace simply takes time. It's not an immediate reaction. Having said that, we're enthusiastic, and we're very comfortable with what we've accomplished.

Looking beyond the second half, the market is looking for ExOne to continue to grow in a rather positive manner for quite a considerable period of time, and we're working hard to get ourselves over the longer term, certainly north of $100 million in revenues and positive performance of profitability. In doing that, I believe all the things that we're focused on are driving us to be able to say that we're very much on target with what we said to our investors in our original underwriting.

Our materials development is moving quite positively. David mentioned that where we are, some of the other materials that we have coming online are very, very much in demand by the customers that we're working with in close collaboration. More than that, there are some materials that are little subsets that we believe we will participate in those markets in a proprietary manner and that we will expand our opportunities in some of these new materials similar to the bonded tungsten that we're working in now.

Obviously, we have to enhance our machine technology. We are still very comfortable about our competitive position. We think it's quite strong; we think we're improving it. We're working on some more environmentally accepted machines with new binders, and that's all moving quite well. We are looking at adding to our machine portfolio for addressing the new materials/markets with another machine that will be here shortly.

The customer collaborations have increased tremendously from February. We now have more market viability and the customers that are coming to us are continuing to be major names of major industrial opportunities globally. The one thing that's a little different, in our perspective, from the peers that we seem to be measured against quite often in the polymer sector, is that our growth in the industrial sector is more a function of design innovation. The customers take a long time to get from design innovation into employing 3D printing in their day-to-day activities, so the process of development is longer, but the market is no less rewarding. The margins and the size of the market are simply larger than what anybody can really measure at this point, and so we still see the opportunity for this Company to get to a very substantial position.

One notion that we've developed in the last six months, is that it's not just about machines, and we knew that all along, but the opportunities in the pre-print design phase and the post-print processing are very important to our overall strategic growth, and 3D printing is a systems process, it's not just a simple machine.

On the front end, you have a lot design optimization, technology that we're looking at because it's something that helps customers find better and more efficient uses for our machines. We're studying pre-printing a little bit more. We're doing the same thing in post-print processing because there are new processes for achieving full density in certain parts as we look at what our customers' requirements are.

From our perspective from running this business, we're very well founded in where we thought we should be, what we want to accomplish in this time period, and then looking at the long-term objectives of the investors to make this into a major long-term investment, I think we're very well positioned and moving in the right direction.

And with that, I'll be glad to take questions.

Deborah Pawlowski: All right Manny, we're ready for the Q&A.
Operator: Ladies and gentlemen, we'll now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. The confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from B.G. Dickey of Stephens, Inc. Please go ahead.

B.G. Dickey: Yes. Good morning everyone.

Kent Rockwell: Good morning.

B.G. Dickey: My first question is just on your updated revenue guidance for 2013, a couple of things there. First can you guys quantify the FX headwind impact that you had in the quarter in dollar terms? And then can you give me a little bit more color on the portion of the revenues being pushed out? What has changed in the market relative to your prior guidance? What's causing your expectation for these revs to be pushed down and how concerned should we be about this delay?

Kent Rockwell: David will take that question.

David Burns: Thank you. Good morning. The first half of your question is about FX, and so let me briefly describe the way we sell in Japan. Our Japanese customers depend on yen-based pricing. So, we quote in yen, and in a sense we transact in our Company to eventually sell to our customers in yen.

With the weakening of the yen, in our estimation, remembering now, we set up our plan based on a yen translation rate at the beginning of the year that has moved about 10 to 15 points since then. In the first half, we believe that the effect has been more than a million dollars of revenue that we would have recognized at the old FX rate, and we estimate the second half could easily be in the same ballpark. So all in, it looks like it's probably costing us a couple of million dollars worth of FX translation for the year.

Your second question was looking for color in the shifting delay?

B.G. Dickey: Correct. My concern there would be that you commented in your prepared remarks that you got some sales that you now expect to be more heavily weighted towards the fourth quarter. Given the fact that you're now at the lower end of your prior range on the top-line, I'm trying to get some color on what's driving that push out, or that delay. Are companies pulling back on their spending or delaying? Any color there would be helpful.

David Burns: Sure, absolutely. Well one point I want to make sure we emphasize is that in our original plan for the year we anticipated two incremental laser drilling machines, micromachines, to be sold this year. They are exactly a million dollars apiece, and those two sales are simply not going to happen this year.

We don't anticipate the product lines going away, but we understand where we are with that program development. So, those two machines are out, there's $2 million there, there's a couple million dollars in FX translation, so when we look at the downward pressure on our guidance, those are two of the biggest drivers. I understand your question, and when you set up for the year, you begin to say to yourself, "How many machines am I going to build? When do I expect to book them? Which programs am I working on and when do I expect them to come to roost?" And, you make an educated guess that most of that booking activity is going to take place within some period of the year, and I have always said it's April through September.
All I can say, at this point, is that when we set up the year, we had anticipated a couple of more machines being in the third quarter. It's not clear to me now whether those programs are going to get booked in the third quarter. Overall, it is not a question of delays or customer reticence or reluctance. It's a question simply of the timing of the execution of securing the order, realizing that when a $1.5 million shipment that perhaps is traveling six weeks on the ocean gets impacted by everything from forwarders to banks to letters of credit, there's a whole chain of things we have to execute.

So from my perspective, I don't feel there's any weakening at all in the machine business. This is about prognosticating the timing of when events are going to break, and we still can't prognosticate it clearly.

So, all-in-all, I think that's what we're trying to tell people. We still believe demand is robust, we're going to do the business we thought we were going to do but exactly when it breaks, we're not sure. The two things we are sure of is the two laser machines are out, which is $2 million in revenue, and we're sure that the translation of the yen/dollar has cost us a couple million dollars in revenue.

Kent Rockwell: David, you might also mention the fact that we have one machine in Russia that has deferred. It's not that we lost the sale, but we do know there was one sale that we thought was eminent, and the customer lost the money and they are postponing it into the next year.

David Burns: Correct. Yes, I mean, this program is in Russia for the aerospace industry. It was partially funded by government funding in Russia. We went through a tendering process. We won the tender. We negotiated the contract, and then the customer was unable to secure the financing they needed this year. So, the contract's in place, and we believe we'll execute it next year at this point.

John Irvin: B.G., this is John. Let me wrap that answer up with an accounting explanation on the timing issue. These are very complex machines that we sell that have many steps for revenue recognition, and so at this point we know that some of these are moving because of the procedures and the timing of how we're going to be able to recognize the revenue between the third and fourth quarters. David gave a great business explanation of what's happening with some of the shift of the revenue. It has nothing to do with the demand of our business, as the demand for the machines is strong. The market is strong. It's simply our ability to get the revenue recognized in this certain period.

Kent Rockwell: What John said is absolutely correct. There is no suggestion at all that demand is faltering. It comes down to the execution on a very complex contract. Sometimes they're six to eight months, and particularly when dealing with as much foreign activity as we are, you'd have issues about when funding occurs because there's a lot of government funding associated with some of these machine sales, and some of the governments simply are putting things on hold.

You can see this even in the United States. Demand overall is still robust and growing, we don't have any concerns about a lack of demand. It's all tactical matters that have to do with other macro economic considerations in the marketplace.

B.G. Dickey: Okay. Great. I really appreciate the detail and the color there. That was very helpful. Then my second question is on your appetite for M&A, you're obviously aware your competitors are pretty active in this arena, just curious to your color or commentary on that? Is it something that you're looking at? Or, are you really just focused on growing organically for the time being?

Kent Rockwell: Our growth up to this point, of course, has been totally organic. As I mentioned in my overview about 2013 and beyond, we have to start to consider looking just beyond the internal opportunities, because we're now starting to see opportunities will really augment our growth, and we have that responsibility to the shareholder to always be looking outside as well as inside for opportunities.
When you’re just trying to get your feet on the ground, my focus has always been to stay very narrowly focused until you’ve gotten to critical mass. We’re at critical mass, in our own minds, right here. I’m comfortable with what we have achieved and where we are going. So, we can start now to look at filling in some of the opportunities that might really augment our growth and sustain our market position as we further penetrate the 3D market.

B.G. Dickey: Okay, perfect. That’s very helpful. I’ll pass it on. Thank you.

Operator: Thank you. The next question is from Holden Lewis of BB&T. Please go ahead.

Holden Lewis: Thank you. Good morning. You referenced the mix playing a role in the gross margin getting to where it did in the quarter, and obviously, all the units you sold were the big ticket Maxes. You indicated that the mix will incorporate more Prints and Flexes as we go into the back half. What does that do to the gross margin? Do those machines get the same gross margin? Or because they’re lower ticket machines, maybe the gross margin is somewhat lower? How should I think about the machine blend and the gross margin effect?

David Burns: Good morning Holden. This is Dave. We’re going to have a very consistent view of margins; we’ve talked about them being north of 50% consistently on the machine product line and they will be. The opportunity for an individual program does spike in terms of margin if we sold one machine that has many options on it or for other reasons gets loaded up. I think that we’ve been very fortunate that on a lot of the S-Max programs we’ve gotten premium margins as we’ve gone along. As we begin to create a greater breadth of machine sales, I think the margins are going to narrow in a range. I don’t think they’re going to drop significantly, but we’re probably not going to have as frequent a spike because we had an individual program that stood out in a relatively low revenue quarter.

Does that make sense?

Holden Lewis: Yes, in effect right now your machine mix has been as good as it can be from the margin standpoint, and you may not see the same degree of favorable mix going forward, I think is what I am hearing.

David Burns: Yes, because we blend down a bit because of much more consistent margins on lower priced machines.

Holden Lewis: Right. Now, the other sort of moving piece there, though, is simply the volume and leverage. When you think about the Q2 and the 45.3% gross margin, but lower volumes than you expect to have over the next two quarters, when we think about the mix you’re going to have in the back half, what weighs more? Do you get a margin uptick because the volume outstrips the mix effect? Or, do you get a margin downtick because the mix effect outstrips the volume here?

David Burns: Well, the one thing that we do know is that, as we get utilizations up, our unabsorbed manufacturing overhead drops, which drives margins up. So by nature, a larger revenue base is going to give greater support to higher margins.

All in, we think that margins are going to continue to be where they are or tick up rather than down as volumes grow.

Holden Lewis: Got it. Okay. Great. And then just secondly, can you talk about the materials, the two materials that you rolled out, how can we think about that impacting the model? When would you expect to
see a meaningful number of iron applications and tungsten applications and, therefore, see that driving the PSC business, and to a lesser degree, the consumable business?

**David Burns:** Well, we internally have anticipated the rollout of all of our materials in the way we’ve modeled out 2013, 2014 and 2015. So, our sense of the volumes we’re going to reach are not necessarily influenced by the fact that we’ve suddenly made an announcement about material. I would say it’s all built into our sense of growing 40% to 50% a year. That said, iron presents an opportunity to be able to print a very low-cost alternative for the industrial marketplace. So, while our stainless products have gotten good acceptance, stainless by nature is pretty expensive to print and to process; iron is far less expensive. There are a lot of shops that, when you walk around, you see iron parts everywhere. The other thing iron does for us, it is almost directly interchangeable with casting applications. So, people who cast iron can now print iron, and so we’re walking in and people begin to say, hey, I could print this or that, which is great from our perspective. Again, the importance of tungsten for us is simply to give a great example of how this collaboration can work to pry out a niche that we think we’re going to have a big impact on. While it may not be many tens of million of dollars, it is certainly a million-plus dollar niche that we’ve got a lot of flexibility and control over, at this point. And, you are going to hear of a lot more materials like that as we are able to reveal customer collaborations we’ve done and material development we’ve done. You’re going to hear more materials that come out in that specialized way as well.

**Holden Lewis:** Okay. And then just bookkeeping, in past quarters you talked about what the consumable piece was. Can you talk about what the consumable dollars were this quarter versus same quarter last year?

**David Burns:** We know our consumable business overall year-over-year was up 20-plus percent for the quarter. I know that. I had to scramble here to pull the numbers out. Holden, maybe we could pick it up on your call.

**Holden Lewis:** Okay. Thank you.

**David Burns:** All right.

**Kent Rockwell:** Holden, I’d like to comment about the margin on the lower-priced machines. One of the things we always look at is, what is the ROI in the eyes of the customer for these machines? And, the ROI of the smaller machines is actually potentially even higher than it is on the S-Max. So, there’s no reason to expect that we should have to look at pricing erosion or margin erosion as a result of selling these lower machines. The customers are going to get a very good return on investment.

**Holden Lewis:** Okay. Thank you.

**Operator:** Thank you. The next question is from Cindy Shaw of Discern. Please go ahead.

**Cindy Shaw:** Thank you very much. I want to go back to the discussion about revenue shift. It sounds not so much like orders slipping into the first quarter of next year, but maybe getting the full signoff, acceptance and shipment or title transfer that may shift. Is that having any change on your view to calendar 2014? Should we think about that as bumping up first quarter revenue next year, and in bumping up your view for next year's revenue?

**John Irvin:** Yes. I’ll take it. Hi, Cindy, it’s John.

**Cindy Shaw:** Hi.
John Irvin: In revenue recognition, I think I talked about this before. If we can't recognize something in the third quarter, it's likely that it's going to get recognized in the fourth quarter. If we can't recognize it in the fourth quarter, we're likely to recognize it in the first quarter. So, when it slips because of revenue recognition and the title transfer procedures that are required in the revenue recognition process, it's normally quarter-to-quarter. A fourth quarter shift is going to first quarter of '14.

I don't think I can recall one shift that's been a six-month, or a nine-month, or a 12-months shift. So these are timing shifts and, again, it has really nothing to do with customer demand. It has to do with our pretty complicated title transfer process to recognize the revenue.

Cindy Shaw: Okay. So, it sounds like that could really bump up first quarter next year revenue without having any negative effect, in other words, it's not going to take away and push everything out it sounds like. Is that fair?

David Burns: That's fair and logical.

Cindy Shaw: Okay, another housekeeping question. I know the tax rate has been a real wide range for this calendar year. Now that you're gotten more visibility into the year, can you comment on the tax rate for the full year or the second half?

John Irvin: Yes. This is John. Here's the tax issue, we still have a very anomalous effective tax rate, and it's driven primarily by the fact that we are taxable in Germany, we're not taxable in Japan and we're not taxable in the U.S. We've engaged outside tax accountants over the last three months and have spent a lot of time with them to develop effective tax strategies that will lessen the burden in the future. You can expect this year to continue to be anomalous, and I think people have tried to say, it's going to be 40% or 50% or 60%. It could be 100% effective tax rate this year with just a million dollars of pre-tax income and a million dollars of taxes, so obviously that's 100% tax rate.

Here's what I think will happen in the future. As we get profitable in the U.S. and get effective tax strategies in place, we will get a normalized tax rate. Hopefully, we'll get closer to a normalized tax rate in 2014.

Cindy Shaw: Okay. So, no real change to this year's outlook for the tax rate? Still that pretty wide range we'd been looking at and maybe even a little higher it sounds like.

Deborah Pawlowski: Cindy, I'm sorry, but we have a few more in queue. Could I ask you to get back in line so we can get through everybody else too?

Cindy Shaw: Okay, can I ask one more quick question? The PSC revenue in the second quarter, the growth rate of PSC revenue had slowed, but it sounds like you're expecting it to pick up in the second half. If you could comment, was that capacity limitations? You mentioned some machine ship out and you talked about seasonality, so if you just give us color on what happened and why it's going to pick back up.

David Burns: Well Cindy, the most significant single thing that happened in the second quarter was we lost about a half of a quarter's production in Japan as we reorganized the shop, swapped the machine out and moved a new machine in.

So, nothing other than that. It certainly wasn't market-driven, it was more of our internal execution.

Kent Rockwell: Europe was slow, but it's coming back.

Cindy Shaw: Okay, great. Thank you. I'll get back in the queue.
Operator: Thank you. The next question is from Prabh Gowrisankaran of Canaccord. Please go ahead.

Prabh Gowrisankaran: Hi. Thanks for taking the question. I just had a follow-on question on the PSCs. You talked about some seasonality that you're starting to see in the U.S. and you expect Europe to pick up. In terms of newer PSCs, could you talk about the timeline that you expect, and what revenues? And, do you expect them to have similar seasonality or are they kind of offset based on the geography that they're in?

David Burns: This is Dave. No, I think that seasonality that we see tends to be economically driven and not necessarily individual region driven. We expect to be printing parts here in the third quarter in Washington and delivering parts, so we'll begin to get marginal contribution to revenues certainly in the fourth quarter ramping up. We've said generally that we expect 12 months to 18 months to get to a ramp reaching upwards toward breakeven, and I think that ramp's going to apply in Auburn, Washington as well. I don't know of anything that would change that.

Prabh Gowrisankaran: Okay. And, the other question on the margin, as these PSCs ramp up and get beyond breakeven as the newer machines get installed, would you see a margin benefit in terms of how it flows through the model?

David Burns: Well, again, we've been saying the same thing all along. When we get to breakeven in a PSC, the marginal margins are about 80%. So, once we get above that breakeven point, we expect margins to kick up significantly in the PSCs.

Prabh Gowrisankaran: Okay. Great. Thanks a lot.

Operator: Thank you. The next question is from Hendi Susanto of Gabelli & Company. Please go ahead.

Hendi Susanto: Good morning, Kent, David and John, and thank you for taking my questions. Related to the previous questions, may I know how many machines, and what machine capacity will be in the new PSC in Auburn, Washington, Western Japan and expanded capacity in Germany?

David Burns: Hendi, this is Dave. In Washington, we've installed one of our larger print platforms initially. We think that's sufficient for the initial period. In Japan, we would anticipate installing, initially, one of the largest platforms and likely a print-sized platform. That decision has not been made, but I think that's the way that's forming up.

In Germany, the capacity expansion is not on the PSC side. The capacity expansion is specifically to give us a more consolidated facility and control over our build process. So, we don't anticipate the PSC capacity in Germany changing. Most of the floor space is devoted to machine building.

Hendi Susanto: Okay, and then my follow up. As we see PSC revenue growing it's portion, would you be able to share gross margin ranks and insight into gross margin of printed products, materials and binders relative to machines and the corporate gross margins?

David Burns: I don't think I totally understood the question.

Hendi Susanto: So, yes, I think particularly I would like to know the gross margin ranks of where gross margins of materials and binders relative to machines and corporate gross margins?

John Irvin: This is John. I think there's a lot of complexity to that answer. So, I'm not going to rank them, but I'll give you a couple of ways to guide you to some of the answer.
The bigger machines, the more optionality, the higher the margins. The smaller the part, the smaller the product being printed, potentially, the lower margin. And, some of our larger programs that we’re seeing at our Production Service Centers carry very high margins. But, it’s just too complex to be able to rank our different margins with the different lines of business.

Hendi Susanto: And, how about the materials and binders?

David Burns: Hendi, I don’t think from a modeling perspective we have broken out margins separately within the recurring revenue stream, and I don’t think at this point we’re likely to start that. By the way, jumping back to that, Holden your question was about revenue, it was just over 10% was consumable revenue for the second quarter of total revenue.

Hendi Susanto: Thank you.

Deborah Pawlowski: All right. This is Debbie, I’m sorry, there are still some people that are in queue, but we have run out of time. So, if you do have other questions, please feel free to give us a call and we can certainly get your questions answered.

Kent would you like to say goodbye?

Kent Rockwell: All right. Again, I’ll capsulize our perspective of the quarter was frankly that we achieved what we had anticipated from a management perspective, and that the qualifying of our looking forward, I don't think that there’s anything that’s out of context from what we’ve said in the past. The demand for our product and our services is excellent. I think we’re penetrating it.

We’re just recognizing that right now all of this growth takes some tactical initiatives, and it’s really about the tactical initiatives of being able to get it done, and we’re learning from that and growing with it.

So, I’m quite enthusiastic that we’re trending in the right direction and doing all the right things. And, it's hard to measure a business that has the opportunity that we have. And, with the kind of growth that we’re experiencing right now, just with people in 90-day segments. But we’re trying to do what we’re suppose to do and providing you that information. And so, we'll continue on with the following quarters. Everything looks good from our perspective.

Operator: Thank you. Ladies and gentlemen, this does conclude today’s teleconference. You may disconnect your lines at this time and thank you for your participation.