UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2023
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____
Commission File Number: 001-39757

Velo3D, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**98-1556965**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
511 Division Street, Campbell, CA	**95008**
(Address of Principal Executive Offices)	(Zip Code)

(408) 610-3915
Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.00001 per share	VLD	New York Stock Exchange
Warrants to purchase one share of common stock, each at an exercise price of $11.50 per share	VLD WS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer ☐
Non-accelerated filer	☒	Smaller reporting company ☒
		Emerging growth company ☒

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

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

As of August 8, 2023, the registrant had 196,747,463 shares of common stock, $0.00001 per share outstanding.

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Explanatory Note

Unless otherwise stated in this Quarterly Report or the context otherwise requires, references to:

- "*Legacy Velo3D*" refer to Velo3D, Inc., a Delaware corporation, prior to the closing of the Merger;
- "*Merger*" refer to the merger contemplated by that certain Business Combination Agreement, dated as of March 22, 2021, by and among JAWS Spitfire Acquisition Corporation, a Cayman Islands exempted company ("*JAWS Spitfire*"), Legacy Velo3D and Spitfire Merger Sub, Inc., a Delaware corporation ("*Merger Sub*"), as amended by Amendment No. 1 to the Business Combination Agreement, dated as of July 20, 2021 (the "*Business Combination Agreement*"), whereby Merger Sub merged with and into Legacy Velo3D, with Legacy Velo3D surviving the merger as a wholly-owned subsidiary of the Company, on September 29, 2021;
- "*Velo3D*" refer to Velo3D, Inc., a Delaware corporation (f/k/a JAWS Spitfire Acquisition Corporation, prior to its domestication), and its consolidated subsidiaries following the closing of the Merger;
- "*we*," "*us*," and "*our*" or the "*Company*" refer to Velo3D following the closing of the Merger and to Legacy Velo3D prior to the closing of the Merger; and
- "*2022 Form 10-K*" refer to our Annual Report on Form 10-K for the year-ended December 31, 2022, filed with the Securities and Exchange Commission (the "*SEC*") on March 20, 2023.

"*Velo*", "*Velo3D*", "*Sapphire*" and "*Intelligent Fusion*" are registered trademarks of Velo3D, Inc; and "*Without Compromise*", "*Flow*" and "*Assure*" are trademarks of Velo3D, Inc.

PART I. FINANCIAL INFORMATION

Forward-looking Statements

Certain statements in this Quarterly Report may constitute "forward-looking statements" for purposes of the federal securities laws. Our forward-looking statements include, but are not limited to, statements regarding our or our management team's expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "can," "contemplate," "continue," "could," "estimate," "expect," "forecast," "intend," "may," "might," "plan," "possible," "potential," "predict," "project," "seek," "should," "target," "will," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this Quarterly Report may include, for example, statements about:

- our market opportunity;
- the ability to maintain the listing of our common stock and our public warrants on the New York Stock Exchange (the "NYSE"), and the potential liquidity and trading of such securities;
- our ability to execute our business plan, which may be affected by, among other things, competition and our ability to grow and manage growth profitably, maintain relationships with customers and retain our key employees;
- changes in applicable laws or regulations;
- the inability to develop and maintain effective internal control over financial reporting;
- our ability to service and comply with our indebtedness;
- our ability to raise financing in the future;
- our success in retaining or recruiting, or changes required in, our officers, key employees or directors;
- the period over which we anticipate our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements;
- the potential for our business development efforts to maximize the potential value of our portfolio;
- regulatory developments in the United States and foreign countries;
- the impact of laws and regulations;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our financial performance;
- macroeconomic conditions, including economic downturns or recessions, inflation, interest rate fluctuations, supply chain shortages and the lingering effects of the COVID-19 pandemic on the foregoing; and
- other factors detailed under the section entitled "*Risk Factors*".

The forward-looking statements contained in this Quarterly Report are based on current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the section entitled "*Risk Factors*". Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. Some of these risks and uncertainties may in the future be amplified by the impact of other macroeconomic factors and there may be additional risks that we consider immaterial or which are unknown. It is not possible to predict or identify all such risks. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Item 1. Financial Statements

Velo3D, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share data)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 28,868	$ 31,983
Short-term investments	18,475	48,214
Accounts receivable, net	14,284	9,185
Inventories	78,015	71,202
Contract assets	15,255	6,805
Prepaid expenses and other current assets	2,860	5,533
Total current assets	157,757	172,922
Property and equipment, net	18,376	19,812
Equipment on lease, net	7,668	9,070
Other assets	23,001	23,310
Total assets	$ 206,802	$ 225,114
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 17,579	$ 12,207
Accrued expenses and other current liabilities	9,369	15,877
Debt – current portion	2,973	2,775
Contract liabilities	5,772	15,194
Total current liabilities	35,693	46,053
Long-term debt – less current portion	19,400	5,422
Contingent earnout liabilities	25,224	17,414
Warrant liabilities	4,470	2,745
Other noncurrent liabilities	11,420	12,634
Total liabilities	96,207	84,268
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, $0.00001 par value - 500,000,000 shares authorized at June 30, 2023 and December 31, 2022, 196,737,320 and 187,561,368 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	2	2
Additional paid-in capital	390,240	361,528
Accumulated other comprehensive loss	(401)	(837)
Accumulated deficit	(279,246)	(219,847)
Total stockholders' equity	110,595	140,846
Total liabilities and stockholders' equity	$ 206,802	$ 225,114

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

Velo3D, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue				
3D Printer	$ 23,190	$ 17,615	$ 47,765	$ 27,799
Recurring payment	35	934	610	1,859
Support services	1,909	1,095	3,573	2,204
Total Revenue	25,134	19,644	51,948	31,862
Cost of revenue				
3D Printer	19,728	15,633	41,702	26,112
Recurring payment	335	685	782	1,403
Support services	2,091	2,094	3,559	3,100
Total cost of revenue	22,154	18,412	46,043	30,615
Gross profit	2,980	1,232	5,905	1,247
Operating expenses				
Research and development	12,454	12,965	23,001	25,880
Selling and marketing	6,108	6,249	12,282	12,232
General and administrative	10,124	8,259	20,451	17,549
Total operating expenses	28,686	27,473	55,734	55,661
Loss from operations	(25,706)	(26,241)	(49,829)	(54,414)
Interest expense	(344)	(92)	(564)	(233)
Gain (loss) on fair value of warrants	828	23,665	(1,725)	17,651
Gain (loss) on fair value of contingent earnout liabilities	1,843	130,227	(7,810)	98,995
Other income (expense), net	178	391	529	609
Income (loss) before provision for income taxes	(23,201)	127,950	(59,399)	62,608
Provision for income taxes	—	—	—	—
Net income (loss)	$ (23,201)	$ 127,950	$ (59,399)	$ 62,608
Net income (loss) per share:				
Basic	$ (0.12)	$ 0.69	$ (0.31)	$ 0.34
Diluted	$ (0.12)	$ 0.63	$ (0.31)	$ 0.31
Shares used in computing net income (loss) per share:				
Basic	193,917,908	184,282,194	191,775,367	183,892,304
Diluted	193,917,908	202,326,053	191,775,367	203,026,468
Net income (loss)	$ (23,201)	$ 127,950	$ (59,399)	$ 62,608
Net unrealized holding gain (loss) on available-for-sale investments	148	(335)	436	(943)
Total comprehensive income (loss)	$ (23,053)	$ 127,615	$ (58,963)	$ 61,665

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

Velo3D, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six months ended June 30,	
	2023	**2022**
Cash flows from operating activities		
Net income (loss)	$ (59,399)	$ 62,608
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	3,026	2,108
Stock-based compensation	12,771	9,933
(Gain) loss on fair value of warrants	1,725	(17,651)
(Gain) loss on fair value of contingent earnout liabilities	7,810	(98,995)
Changes in assets and liabilities		
Accounts receivable	(5,099)	961
Inventories	3,538	(34,826)
Contract assets	(8,450)	(131)
Prepaid expenses and other current assets	3,609	7,049
Other assets	292	1,283
Accounts payable	(1,716)	(415)
Accrued expenses and other liabilities	(6,249)	5,977
Contract liabilities	(9,422)	(6,077)
Other noncurrent liabilities	(1,214)	(617)
Net cash used in operating activities	(58,778)	(68,793)
Cash flows from investing activities		
Purchase of property and equipment	(690)	(8,578)
Production of equipment for lease to customers	(3,694)	(2,563)
Purchases of available-for-sale investments	—	(87,655)
Proceeds from maturity of available-for-sale investments	29,984	4,000
Net cash provided by (used in) investing activities	25,600	(94,796)
Cash flows from financing activities		
Proceeds from ATM offering, net of issuance costs	15,591	—
Proceeds from revolver facility	14,000	—
Proceeds from equipment loans	1,600	—
Repayment of equipment loans	(1,467)	(1,067)
Issuance of common stock upon exercise of stock options	350	570
Net cash provided by (used in) financing activities	30,074	(497)
Effect of exchange rate changes on cash and cash equivalents	(11)	(7)
Net change in cash and cash equivalents	(3,115)	(164,093)
Cash and cash equivalents and restricted cash at beginning of period	32,783	208,402
Cash and cash equivalents and restricted cash at end of period	$ 29,668	$ 44,309
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 564	$ 152
Supplemental disclosure of non-cash information		

Unpaid liabilities related to property and equipment	177	134
Equipment for lease to customers returned to inventory	4,364	1,308

The following table provides a reconciliation of cash, cash equivalents, and restricted cash shown on the condensed consolidated statements of cash flows:

	June 30,	
	2023	**2022**
	(In thousands)	
Cash and cash equivalents	$ 28,868	$ 43,509
Restricted cash (Other assets)	800	800
Total cash and cash equivalents and restricted cash	$ 29,668	$ 44,309

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

Velo3D, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of March 31, 2022	**183,557,946**	**$ 2**	**$ 345,418**	**$ (608)**	**$ (295,209)**	**$ 49,603**
Issuance of common stock upon exercise of stock options and release of restricted stock units	1,221,179	—	403	—	—	403
Stock-based compensation	130,483	—	4,976	—	—	4,976
Net loss	—	—	—	—	127,950	127,950
Other comprehensive loss	—	—	—	(349)	—	(349)
Balance as of June 30, 2022	**184,909,608**	**$ 2**	**$ 350,797**	**$ (957)**	**$ (167,259)**	**$ 182,583**
Balance as of March 31, 2023	**192,479,797**	**$ 2**	**$ 378,532**	**$ (549)**	**$ (256,045)**	**$ 121,940**
Issuance of common stock upon exercise of stock options	109,223	—	40	—	—	40
Issuance of common stock upon release of RSUs	1,239,989	—	—	—	—	—
Stock-based compensation	—	—	6,535	—	—	6,535
Issuance of common stock in connection with At-the-Market offering, net of issuance costs	2,908,311	—	5,133	—	—	5,133
Net loss	—	—	—	—	(23,201)	(23,201)
Other comprehensive income	—	—	—	148	—	148
Balance as of June 30, 2023	**196,737,320**	**$ 2**	**$ 390,240**	**$ (401)**	**$ (279,246)**	**$ 110,595**

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2021	**183,232,494**	**$ 2**	**$ 340,294**	**$ (14)**	**$ (229,867)**	**$ 110,415**
Issuance of common stock upon exercise of stock options and release of restricted stock units	1,546,631	—	570	—	—	570
Stock-based compensation	130,483	—	9,933	—	—	9,933
Net income	—	—	—	—	62,608	62,608
Other comprehensive loss	—	—	—	(943)	—	(943)
Balance as of June 30, 2022	**184,909,608**	**$ 2**	**$ 350,797**	**$ (957)**	**$ (167,259)**	**$ 182,583**
Balance as of December 31, 2022	**187,561,368**	**$ 2**	**$ 361,528**	**$ (837)**	**$ (219,847)**	**$ 140,846**
Issuance of common stock upon exercise of stock options	1,295,435	—	350	—	—	350
Issuance of common stock upon release of RSUs	1,639,727	—	—	—	—	—
Stock-based compensation	—	—	12,771	—	—	12,771
Issuance of common stock in connection with At-the-Market offering, net of issuance costs	6,240,790	—	15,591	—	—	15,591
Net loss	—	—	—	—	(59,399)	(59,399)
Other comprehensive income	—	—	—	436	—	436
Balance as of June 30, 2023	**196,737,320**	**$ 2**	**$ 390,240**	**$ (401)**	**$ (279,246)**	**$ 110,595**

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

Velo3D, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Description of Business and Basis of Presentation

Velo3D, Inc., a Delaware corporation ("Velo3D"), formerly known as JAWS Spitfire Acquisition Corporation ("JAWS Spitfire"), produces metal additive three dimensional printers ("3D Printers") which enable the production of components for space rockets, jet engines, fuel delivery systems and other high value metal parts, which it sells or leases to customers for use in their businesses. The Company also provides support services ("Support Services") for an incremental fee.

Velo3D's subsidiaries are Velo3D US, Inc., formerly known as Velo3D, Inc. ("Legacy Velo3D"), which was founded in June 2014 as a Delaware corporation headquartered in Campbell, California, Velo3D B.V., which was founded in September 2021 in the Netherlands, and Velo3D GmBH, which was founded in June 2022 in Germany. The first commercially developed 3D Printer was delivered in the fourth quarter of 2018.

Unless otherwise stated herein or unless the context otherwise requires, references in these notes to the "Company" refer to (i) Legacy Velo3D prior to the consummation of the Merger (as defined in "*Explanatory Note—Certain Defined Terms*"); and (ii) Velo3D and its consolidated subsidiaries following the consummation of the Merger.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the requirements of the U.S. Securities and Exchange Commission (the "SEC") for interim financial reporting. Intercompany balances and transactions have been eliminated in consolidation. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K") and the related notes, which provide a more complete discussion of the Company's accounting policies and certain other information. The condensed consolidated balance sheet as of December 31, 2022 has been derived from the audited financial statements of the Company. These unaudited condensed consolidated financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for the fair statement of the Company's financial information. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2023, or for any other interim period or for any other future year.

Financial Condition and Liquidity and Capital Resources

The condensed consolidated financial statements are unaudited and have been prepared on the basis of continuity of operations, the realization of assets and satisfaction of liabilities in the ordinary course of business. Since inception, the Company has not achieved profitable operations or generated positive cash flows from operations. The Company's operating plan may change as a result of many factors currently unknown and there can be no assurance that the current operating plan will be achieved in the time frame anticipated by the Company, and it may need to seek additional funds sooner than planned. If adequate funds are not available to the Company on a timely basis, it may be required to delay, limit, reduce, or terminate certain commercial efforts, or pursue merger or acquisition strategies, all of which could adversely affect the holdings or the rights of the Company's stockholders. The Company has incurred losses from operations and negative cash flows from operations in every year since inception and expects this to continue for the foreseeable future. As of June 30, 2023, the Company had an accumulated deficit of $279.2 million.

As of August 15, 2023, the issuance date of the unaudited condensed consolidated financial statements, the Company believes that the cash and cash equivalents on hand, together with cash the Company expects to generate from future operations, will be sufficient to meet the Company's working capital and capital expenditure requirements for a period of at least twelve months from the date of issuance of these condensed consolidated financial statements.

On February 6, 2023, the Company entered into a sales agreement (the "ATM Sales Agreement") with Needham & Company, LLC ("Needham"), as agent, pursuant to which the Company may offer and sell, from time to time through Needham, shares of its common stock, par value $0.00001 per share. See Note 16. At-the-Market Offering, for further information.

In addition, on August 10, 2023, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with certain affiliated institutional investors (collectively, the "Investor") pursuant to which the Company agreed to issue and sell, in a registered public offing by the Company directly to the Investor (the "Offering"), up to $105 million aggregate principal amount of the Company's senior secured convertible notes (the "Notes"). On August 14, 2023, the Company issued $70 million aggregate principal amount of Notes (the "Initial Notes") to the Investor for approximately $66 million in net proceeds, and used approximately $22 million of the net proceeds to repay in full indebtedness outstanding under its third amended and restated loan and security agreement, as amended (the "Loan Agreement"). See Note 17. Subsequent Events, for further information.

Note 2. Summary of Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies and for further information on significant accounting updates adopted in the prior year, see Note 2, *Summary of Significant Accounting Policies*, to the audited consolidated financial statements in the 2022 Form 10-K. During the six months ended June 30, 2023, there were no significant updates to the Company's significant accounting policies other than as described below.

At-the-Market Offering

On February 6, 2023, the Company entered into the ATM Sales Agreement with Needham, as agent, pursuant to which the Company may offer and sell, from time to time through Needham, shares of its common stock pursuant to its universal shelf registration statement (the "Shelf Registration Statement"), which the Company filed with the SEC on November 14, 2022. As of June 30, 2023, the Company has sold $15.6 million of shares, net of issuance costs of $1.0 million. See Note 16. *At-the-Market Offering*, for further information.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("Topic 326")", and has since released various amendments including ASU No. 2019-04. The guidance modifies the measurement of expected credit losses on certain financial instruments. This guidance is effective for the Company for the fiscal year beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted the new guidance in the first quarter of 2023. The effect on the consolidated financial statements and related disclosures was not material.

Note 3. Basic and Diluted Net Income (Loss) per Share

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share attributable to common stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
	(In thousands, except share and per share data)		**(In thousands, except share and per share data)**	
Numerator:				
Net income (loss)	$ (23,201)	$ 127,950	$ (59,399)	$ 62,608
Denominator:				
Basic weighted average shares outstanding	193,917,908	184,282,194	191,775,367	183,892,304
Effect of dilutive securities:				
Common stock options	—	18,043,859	—	19,130,274
Restricted stock units	—	—	—	3,890
Diluted weighted average shares outstanding	193,917,908	202,326,053	191,775,367	203,026,468
Net income (loss) per share				
Basic	$ (0.12)	$ 0.69	$ (0.31)	$ 0.34
Diluted	$ (0.12)	$ 0.63	$ (0.31)	$ 0.31

The following potentially dilutive shares of common stock equivalents "on an as-converted basis" were excluded from the computation of diluted net loss per share for the periods presented because including them would have had an antidilutive effect:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Common stock options	15,257,468	1,493,147	15,257,468	406,732
Common stock warrants	13,145,000	13,075,000	13,145,000	13,075,000
Restricted stock units	12,227,171	5,355,860	12,227,171	5,351,970
Total potentially dilutive common share equivalents	40,629,639	19,924,007	40,629,639	18,833,702

Total potentially dilutive common share equivalents for the three and six months ended June 30, 2023 and 2022 excludes 21,265,936 and 21,758,148, respectively, shares related to the earnout liability as these shares are contingently issuable upon meeting certain triggering events.

Note 4. Fair Value Measurements

The Company's assets and liabilities that were measured at fair value on a recurring basis were as follows:

	Fair Value Measured as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Money market funds (i)	$ 25,744	$ —	$ —	$ 25,744
U.S. Treasury securities (ii)	10,358	—	—	10,358
Corporate bonds (ii)	—	8,117	—	8,117
Total financial assets	$ 36,102	$ 8,117	$ —	$ 44,219
Liabilities				
Common stock warrant liabilities (Public) (iii)	$ 2,842	$ —	$ —	$ 2,842
Common stock warrant liabilities (Private Placement) (iii)	—	—	1,488	1,488
Common stock warrant liabilities (2022 Private Warrant) (iii)	—	—	140	140
Contingent earnout liabilities	—	—	25,224	25,224
Total financial liabilities	$ 2,842	$ —	$ 26,852	$ 29,694

	Fair Value Measured as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Money market funds (i)	$ 31,728	$ —	$ —	$ 31,728
U.S. Treasury securities (ii)	24,701	—	—	24,701
Corporate bonds (ii)	—	23,513	—	23,513
Total financial assets	$ 56,429	$ 23,513	$ —	$ 79,942
Liabilities				
Common stock warrant liabilities (Public) (iii)	$ 1,748	$ —	$ —	$ 1,748
Common stock warrant liabilities (Private Placement) (iii)	—	—	888	888
Common stock warrant liabilities (2022 Private Warrant) (iii)	—	—	109	109
Contingent earnout liabilities	—	—	17,414	17,414
Total financial liabilities	$ 1,748	$ —	$ 18,411	$ 20,159

(i) Included in cash and cash equivalents on the condensed consolidated balance sheets.
(ii) Included in short-term investments on the condensed consolidated balance sheets.
(iii) Included in warrant liabilities on the condensed consolidated balance sheets.

For more information regarding the Public Warrants, Private Placement Warrants, the 2022 Private Warrant and the Earnout Shares, see Note 10, *Equity Instruments*.

The aggregate fair value of the Company's money market funds approximated amortized cost and, as such, there were no unrealized gains or losses on money market funds as of June 30, 2023 and December 31, 2022. Realized gains and losses, net of tax, were not material for any of the periods presented.

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

	December 31, 2022	Change in fair value	March 31, 2023	Change in fair value	June 30, 2023
	(In thousands)				
Private placement warrant liabilities	$ 888	$ 869	$ 1,757	$ (269)	$ 1,488
2022 Private Warrant	109	37	146	(6)	140
Contingent earnout liabilities	17,414	9,653	27,067	(1,843)	25,224
	$ 18,411	$ 10,559	$ 28,970	$ (2,118)	$ 26,852

	December 31, 2021	Change in fair value	March 31, 2022	Change in fair value	June 30, 2022
	(In thousands)				
Private placement warrant liabilities	$ 7,387	$ 2,047	$ 9,434	$ (8,054)	$ 1,380
Contingent earnout liabilities	111,487	31,232	142,719	(130,226)	12,493
	$ 118,874	$ 33,279	$ 152,153	$ (138,280)	$ 13,873

The fair value of the Private Placement Warrant liability, the 2022 Private Warrant and contingent earnout liability are based on significant unobservable inputs, which represent Level 3 measurements within the fair value hierarchy.

In determining the fair value of the Private Placement Warrant liability the Company used the Monte Carlo Simulation Model that assumes optimal exercise of the Company's redemption option at the earliest possible date (see Note 10, *Equity Instruments)*.

In determining the fair value of the 2022 Private Warrant, the Company used the Black-Scholes option pricing model to estimate the fair value using unobservable inputs including the expected term, expected volatility, risk-free interest rate and dividend yield (see Note 10, *Equity Instruments)*.

In determining the fair value of the contingent earnout liability, the Company used the Monte Carlo simulation valuation model using a distribution of potential outcomes on a weekly basis over the applicable earnout period using the most reliable information available (see Note 10, *Equity Instruments*).

Note 5. Investments

Available-for-sale Investments

The following table summarizes the Company's available-for-sale ("AFS") investments. These are classified as "Short-term investments" on the condensed consolidated balance sheets.

	June 30, 2023			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 10,534	$ —	$ (176)	$ 10,358
Corporate bonds	8,342	—	(225)	8,117
Total available-for-sale investments	$ 18,876	$ —	$ (401)	$ 18,475

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 25,124	$ —	$ (423)	$ 24,701
Corporate bonds	23,927	—	(414)	23,513
Total available-for-sale investments	$ 49,051	$ —	$ (837)	$ 48,214

The following table presents the breakdown of the AFS investments in an unrealized loss position as of June 30, 2023 and December 31, 2022, respectively.

	June 30, 2023		December 31, 2022	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(In thousands)			
U.S. Treasury securities				
Less than 12 months	$ —	$ —	$ 16,702	$ (365)
12 months or longer	10,358	(176)	7,999	(58)
Total	$ 10,358	$ (176)	$ 24,701	$ (423)
Corporate bonds				
Less than 12 months	$ —	$ —	$ 18,951	$ (387)
12 months or longer	8,117	(225)	1,478	(27)
Total	$ 8,117	$ (225)	$ 20,429	$ (414)

The Company does not believe these AFS investments to be other-than-temporarily impaired as of June 30, 2023 and December 31, 2022.

There were no material realized gains or losses on AFS investments during the six months ended June 30, 2023 and June 30, 2022.

All remaining contractual maturities of AFS investments held at June 30, 2023 are as follows:

	Less than 12 months		Greater than 12 months	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(In thousands)			
Corporate bonds	$ 3,444	$ (81)	$ 4,673	$ (144)
U.S. Treasury securities	10,358	(176)	—	—
Total	$ 13,802	$ (257)	$ 4,673	$ (144)

Actual maturities may differ from the contractual maturities because the Company may sell these investments prior to their contractual maturities.

Note 6. Balance Sheet Components

Accounts Receivable, Net

Accounts receivable, net consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Trade receivables	$ 14,351	$ 9,639
Less: Allowances for credit losses	(67)	(454)
Total	$ 14,284	$ 9,185

Inventories

Inventories consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Raw materials	$ 66,929	$ 58,585
Work-in-progress	9,365	12,617
Finished goods	1,721	—
Total	$ 78,015	$ 71,202

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Prepaid insurance and other	$ 1,924	$ 3,316
Vendor prepayments	936	2,217
Total	$ 2,860	$ 5,533

Property and Equipment, Net

Property and equipment, net consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Computers and software	$ 2,409	$ 2,222
Lab equipment and other equipment	7,866	7,379
Furniture and fixtures	246	181
Leasehold improvements	16,016	16,273
Construction in progress	21	—
Total property, plant and equipment	26,558	26,055
Less accumulated depreciation and amortization	(8,182)	(6,243)
Property, plant and equipment, net	$ 18,376	$ 19,812

Depreciation expense for the three months ended June 30, 2023 and 2022 was $1.2 million and $0.7 million, respectively. Depreciation expense for the six months ended June 30, 2023 and 2022 was $2.3 million and $1.2 million, respectively.

The manufacturing facility operating lease at Campbell (McGlincy) was terminated on March 31, 2023, and is no longer in use. There were no significant asset retirement obligations. The Company wrote-off $0.6 million in fully-depreciated leasehold improvements related to the Campbell (McGlincy) lease during the six months ended June 30, 2023.

Other Assets

Other assets consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Right of use assets	$ 12,180	$ 13,545
Net investments in sales-type lease	6,288	6,554
Non-current prepaid expenses and other assets	4,533	3,211
Total Other assets	$ 23,001	$ 23,310

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Accrued expenses	$ 3,598	$ 8,602
Accrued salaries and benefits	3,402	4,830
Lease liability – current portion	2,369	2,445
Total Accrued expenses and other current liabilities	$ 9,369	$ 15,877

Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following:

	June 30, 2023	December 31, 2022
	(In thousands)	
Lease liabilities – noncurrent portion	$ 11,024	$ 12,206
Other noncurrent liabilities	396	428
Total other noncurrent liabilities	$ 11,420	$ 12,634

Please refer to Note 10, *Equity Instruments,* for further details of the contingent earnout liability and warrant liabilities.

Note 7. Equipment on Lease, Net

The equipment leased to customers had a cost basis of $8.3 million and accumulated depreciation of $0.6 million as of June 30, 2023. The equipment leased to customers had a cost basis of $10.6 million and accumulated depreciation of $1.5 million as of December 31, 2022.

The total depreciation expense was $0.3 million and $0.5 million included in cost of revenue for the three months ended June 30, 2023 and 2022, respectively. The total depreciation expense was $0.6 million and $0.9 million included in cost of revenue for the six months ended June 30, 2023 and 2022, respectively.

Lease payments from customers consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)		(In thousands)	
Equipment on lease payments	$ 35	$ 833	$ 610	$ 1,713
Equipment on lease variable payments	—	101	—	146
Total lease payments	$ 35	$ 934	$ 610	$ 1,859

The Company entered into debt secured by certain leased equipment to customers. See Note 9, *Long-term Debt,* for a description of these financing arrangements.

Note 8. Leases

The Company leases its office and manufacturing facilities under four non-cancellable operating leases, including options to extend, which expire in 2024 to 2032. The agreements include a provision for renewal at the then prevailing market rate for terms specified in each lease.

As noted above in Note 6, *Balance Sheet Components*, the manufacturing facility operating lease at Campbell (McGlincy) was terminated on March 31, 2023, and is no longer in use. The Company's right-of-use assets and lease liabilities related to McGlincy were amortized in full over the life of the lease.

Total right-of-use ("ROU") assets and lease liabilities are as follows:

	June 30, 2023	December 31, 2022
	(In thousands)	
Right-of-use assets:		
Net book value (Other assets)	$ 12,180	$ 13,545
Operating lease liabilities:		
Current (Accrued expense and other current liabilities)	$ 2,345	$ 2,410
Noncurrent (Other noncurrent liabilities)	11,024	12,201
	13,369	14,611
Financing lease liabilities:		
Current (Accrued expense and other current liabilities)	$ 24	$ 35
Noncurrent (Other noncurrent liabilities)	—	5
	$ 24	$ 40
Total lease liabilities	$ 13,393	$ 14,651

There were no impairments recorded related to these assets as of June 30, 2023 and December 31, 2022.

Information about lease-related balances were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands, except years and percentages)		(In thousands, except years and percentages)	
Operating lease expense	$ 746	$ 717	$ 1,510	1,434
Financing lease expense	9	9	18	18
Short-term lease expense	66	68	160	167
Total lease expense	$ 821	$ 794	$ 1,688	1,619
Cash paid for leases	$ 700	$ 683	$ 1,406	964
Weighted – average remaining lease term – operating leases (years)	3.6	4.4	3.6	4.4
Weighted – average discount rate – operating leases	8.7%	4.4%	8.7 %	4.4%

Maturity of operating lease liabilities as of June 30, 2023 are as follows:

		(In thousands)
Remainder of 2023	$	1,380
2024		2,730
2025		2,266
2026		2,313
2027		2,400
Thereafter		11,270
Total operating lease payments	$	22,359
Less portion representing imputed interest		(8,990)
Total operating lease liabilities	$	13,369
Less current portion		2,345
Long-term portion	$	11,024

Note 9. Long-Term Debt

Long-term debt consisted of the following:

		June 30, 2023		December 31, 2022
		(In thousands)		
Revolving credit line	$	17,000	$	3,000
Equipment loan		5,489		5,356
Deferred financing costs		(116)		(159)
Total	$	22,373	$	8,197
Debt – current portion		2,973		2,775
Long-term debt – less current portion	$	19,400	$	5,422

As of June 30, 2023, the Company's banking arrangements included a revolving credit line and equipment loans pursuant to the Loan Agreement originally entered into with Silicon Valley Bank ("SVB"). For a full description of these banking arrangements, see Note 9, *Long-Term Debt*, in the audited consolidated financial statements included in the 2022 Form 10-K. These loans contained customary representations and warranties, reporting covenants, events of default and termination provisions. The affirmative covenants included, among other things, that the Company furnish monthly financial statements, minimum cash balances, quarterly revenues, a yearly budget, timely files taxes, maintain good standing and government compliance, maintain liability and other insurance and furnish audited financial statements no later than the date of delivery to the Board of Directors.

On August 14, 2023, the Company used approximately $22 million of the net proceeds from the Offering of the Initial Notes to repay all outstanding obligations under the Loan Agreement. With the payoff of the debt, the Loan Agreement was terminated and is no longer available to the Company. See Note 17. *Subsequent Events*, for further information.

The Company amortizes deferred financing costs over the life of the borrowing. As of June 30, 2023 and December 31, 2022, the remaining unamortized balance of deferred financing costs was $0.1 million, respectively for both periods, and was included in Debt — current portion on the balance sheets.

Revolving Credit Line — For the three and six months ended June 30, 2023, the Company drew $9.0 million and $14.0 million on the revolving credit facility, respectively, with a variable interest rate of the greater of 5.50% or Prime plus 0.75% and a term of 22 months due on December 31, 2024. As of June 30, 2023, the Company had $13.0 million on the revolving credit line undrawn after the draw on June 29, 2023.

The Company’s draws on the revolving credit facility were as follows: $5.0 million in February 2023, $5.0 million in April 2023, and $4.0 million in June 2023, with a variable interest rate of the greater of 5.50% or Prime Rate plus 0.75% and terms of 22 months, 20 months and 18 months, respectively, all due on December 31, 2024.

Interest on the outstanding balance of the revolving credit line was payable monthly at an annual rate of the greater of (1) the Wall Street Journal Prime Rate plus 0.25% and (2) 5.0% when the Company’s Adjusted Quick Ratio (“AQR”) was at least 1.50 to 1.0, and at an annual rate of the greater of (1) the Wall Street Journal Prime Rate plus 0.75% and (2) 5.50% when the Company did not maintain such AQR. The effective interest rate was 8.0% and 5.2% for the three months ended June 30, 2023 and 2022, respectively. The effective interest rate was 9.7% and 4.9% for the six months ended June 30, 2023 and 2022, respectively. The loan fees were less than $0.1 million as of June 30, 2023.

Equipment Loan **—** As of June 30, 2023, the remaining equipment loan availability were $9.5 million.

As of June 30, 2023, the outstanding balance was $5.5 million. The effective interest rate was 8.0% and 3.9% for the three months ended June 30, 2023 and 2022, respectively. The effective interest rate was 7.7% and 3.5% for the six months ended June 30, 2023 and 2022, respectively. For the three months and six months ended June 30, 2023, $0.7 million and $1.4 million, respectively, in principal payments were paid.

The future minimum aggregate payments for the above borrowings are as follows as of June 30, 2023:

	(In thousands)
2023	$ 1,733
2024	19,156
2025	1,333
2026	267
	$ 22,489

Note 10. Equity Instruments

Common stock

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders but are not entitled to cumulative voting rights, are entitled to receive ratably such dividends as may be declared by the Company’s Board of Directors out of funds legally available therefor subject to preferences that may be applicable to any shares of redeemable convertible preferred stock currently outstanding or issued in the future, are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding redeemable convertible preferred stock in the event of the Company’s liquidation, dissolution, or winding up, have no preemptive rights and no right to convert their common stock into any other securities, and have no redemption or sinking fund provisions applicable to the common stock.

Common Stock Reserved for Future Issuance

Shares of common stock reserved for future issuance on an "as if converted" basis were as follows:

	June 30, 2023	December 31, 2022
	(share data)	
Common stock warrants	13,145,000	13,145,000
Shares available for future grant under 2021 Equity Incentive Plan	29,557,352	20,861,294
Reserved for At-the-Market offering	13,759,210	—
Reserved for employee stock purchase plan	7,371,214	5,495,601
Total shares of common stock reserved	**63,832,776**	**39,501,895**

In February 2023, the Company entered into the ATM Sales Agreement with Needham, as agent, pursuant to which the Company may offer and sell, from time to time through Needham, up to $40.0 million shares of its common stock pursuant to the Shelf Registration Statement, and in connection therewith, the Company reserved 20,000,000 shares of common stock for issuance under the ATM Sales Agreement. In March 2023, pursuant to the evergreen provisions of the Company's 2021 Equity Incentive Plan (the "2021 EIP"), the Company registered an additional 9,378,068 shares of common stock for issuance under the 2021 EIP and 1,875,613 shares of common stock for issuance under the 2021 ESPP.

The shares available for future grant under the 2021 EIP are net of any un-exercised stock options (vested and unvested) and unvested restricted stock units ("RSUs") outstanding that may convert to common stock in the future upon exercise or vesting as of June 30, 2023 and December 31, 2022.

Common Stock Warrant Liabilities

Warrants for common stock of 13,145,000 were exercisable 1-to-1 as of June 30, 2023 and December 31, 2022. The warrants on common stock are liability classified and recorded at fair value on the issue date with periodic remeasurement. Warrants for shares of common stock consist of 8,625,000 publicly-traded warrants (the "Public Warrants"), 4,450,000 private placement warrants (the "Private Placement Warrants") and a warrant to purchase 70,000 shares of common stock (the "2022 Private Warrant"), as summarized in the following table:

	December 31, 2022 and June 30, 2023				
	Issue Date	Expiration Date	Number of Warrants	Exercise Price per warrant	Fair Value on Issue Date per warrant
Private placement warrants - Common Stock	12/02/2020	09/29/2026	4,450,000	$11.50	$2.00
2022 Private Warrant – Common Stock	07/25/2022	07/24/2034	70,000	$2.56	$2.43
Public warrants – Common Stock	12/02/2020	09/29/2026	8,625,000	$11.50	$3.30
			13,145,000		

Warrant Liabilities – Fair Value

The issuance of the Private Placement Warrant and Public Warrant liabilities were accounted for upon the reverse recapitalization. See Note 3, *Reverse Recapitalization*, in the audited consolidated financial statements included in the 2022 Form 10-K. The 2022 Private Warrant was issued in connection with the Company's entry into the joinder and fourth loan modification with SVB. See Note 10, *Long-Term Debt,* in the consolidated financial statements included in the 2022 Form 10-K. The liability for warrants on common stock carried at fair value was as follows:

	Fair Value on December 31, 2022	Gain on fair value of warrants	Fair Value on March 31, 2023	Loss on fair value of warrants	Fair Value on June 30, 2023
			(In thousands)		
Private placement warrants – Common Stock	$ 888	$ 869	$ 1,757	$ (269)	$ 1,488
2022 Private Warrant – Common Stock	109	37	146	(6)	140
Public warrants – Common Stock	1,748	1,647	3,395	(553)	2,842
	$ 2,745	$ 2,553	$ 5,298	$ (828)	$ 4,470

	Fair Value on December 31, 2021	Gain on fair value of warrants	Fair Value on March 31, 2022	Loss on fair value of warrants	Fair Value on June 30, 2022
			(In thousands)		
Private placement warrants – Common Stock	$ 7,387	$ 2,047	$ 9,434	$ (8,054)	$ 1,380
2022 Private Warrant – Common Stock	—	—	—	—	—
Public warrants – Common Stock	14,318	3,967	18,285	(15,612)	2,673
	$ 21,705	$ 6,014	$ 27,719	$ (23,666)	$ 4,053

The liabilities associated with the Private Placement Warrants and 2022 Private Warrant were subject to remeasurement at each balance sheet date using the Level 3 fair value inputs and the Public Warrants were subject to remeasurement at each balance sheet date using Level 1 fair value inputs for the three months ended June 30, 2023 and June 30, 2022.

Each Private Placement Warrant is exercisable to purchase one share of common stock at a price of $11.50 per share. Subject to certain exceptions, the Private Placement Warrants have terms and provisions that are identical to those of the Public Warrants. The 2022 Private Warrant is exercisable to purchase one share of common stock at a price of $2.56 per share and allows cashless exercise in whole or part. The Public Warrants may only be exercised for a whole number of shares. The Public Warrants became exercisable on December 7, 2021.

Private Placement Warrant – Fair Value Assumptions

The fair value assumptions used in the Monte Carlo simulation model for the recurring valuation of the private placement common stock warrant liability were as follows:

	As of June 30, 2023	As of December 31, 2022
Current stock price	$ 2.16	$ 1.79
Expected volatility	76.5 %	68.0 %
Risk-free interest rate	4.4 %	4.1 %
Dividend rate	— %	— %
Expected Term (years)	3.25	3.75

Expected volatility: The volatility is determined iteratively, such that the concluded value of the Public Warrant is equal to the traded price.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero-coupon U.S. Treasury notes with maturities corresponding to the expected term of the common stock warrants.

Expected dividend yield: The expected dividend rate is zero as the Company currently has no history or expectation of declaring dividends on its common stock.

Expected term: The expected term represents the period that the warrants are expected to be outstanding and is determined using the simplified method, which deems the term to be the average of the time to vesting and the contractual life of the common stock warrants.

2022 Private Warrant – Fair Value Assumptions

The fair value assumptions used in the Black-Scholes simulation model for the recurring valuation of the 2022 Private Warrant liability were as follows:

	As of June 30, 2023	As of December 31, 2022
Current stock price	$ 2.16	$ 1.79
Expected volatility	103.0 %	86.9 %
Risk-free interest rate	3.8 %	3.9 %
Dividend rate	— %	— %
Expected Term (years)	11.07	11.57

Expected volatility: The expected volatility was derived from the implied volatility of the Company's publicly traded common stock as of June 30, 2023.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero-coupon U.S. Treasury notes with maturities corresponding to the expected term of the common stock warrants.

Expected dividend yield: The expected dividend rate is zero as the Company currently has no history or expectation of declaring dividends on its common stock.

Expected term: The expected term represents the period that the warrant is expected to be outstanding and is determined using the simplified method, which deems the term to be the average of the time to vesting and the contractual life of the warrant.

Contingent Earnout Liabilities

The contingent earnout liability is for Earnout Shares (as defined below) for pre-closing Legacy Velo3D equity holders (as defined in the Business Combination Agreement as holders of Legacy Velo3D shares, Legacy Velo3D warrants, Legacy Velo3D convertible notes and Legacy Velo3D options immediately prior to the closing date) ("Eligible Legacy Velo3D Equityholders"). During the time period between September 29, 2021 (the "Closing Date") and the five-year anniversary of the Closing Date, Eligible Legacy Velo3D Equityholders may receive up to 21,758,148 shares of additional common stock (the "Earnout Shares"), which is based on two tranches or 10,879,074 per tranche. The Earnout Shares issuable to holders of employee stock options are accounted as stock-based compensation expense as they are subject to forfeiture based on the satisfaction of certain employment conditions. See Note 11, Equity Incentive Plans & Stock Based Compensation, for further discussion.

The rollforward for the contingent earnout liabilities for the three months ended June 30, 2023 and 2022, was as follows:

	Fair Value on December 31, 2022	Gain on fair value of warrants	Fair Value on March 31, 2023	Loss on fair value of warrants	Fair Value on June 30, 2023
			(In thousands)		
Contingent Earnout Liabilities	$ 17,414	$ 9,653	$ 27,067	$ (1,843)	$ 25,224
	$ 17,414	$ 9,653	$ 27,067	$ (1,843)	$ 25,224

	Fair Value on December 31, 2021	Gain on fair value of warrants	Fair Value on March 31, 2022	Loss on fair value of warrants	Fair Value on June 30, 2022
			(In thousands)		
Contingent Earnout Liabilities	$ 111,487	$ 31,232	$ 142,719	$ (130,226)	$ 12,493
	$ 111,487	$ 31,232	$ 142,719	$ (130,226)	$ 12,493

Fair Value Assumptions – Contingent Earnout Liabilities

Assumptions used in the fair value of the contingent earnout liabilities are described below.

	As of June 30, 2023	As of December 31, 2022
Current stock price	$2.16	$1.79
Expected volatility	103.0%	89.9%
Risk-free interest rate	4.5%	4.1%
Dividend yield	—%	—%
Expected Term (years)	3.25	3.75

Expected volatility: The expected volatility was derived from the implied volatility of the Company's publicly traded common stock as of June 30, 2023.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero-coupon U.S. Treasury notes with maturities corresponding to the expected term of the Earnout Shares.

Expected dividend yield: The expected dividend rate is zero as the Company currently has no history or expectation of declaring dividends on its common stock.

Expected term: The expected term represents the period that the Company's stock-based awards are expected to be outstanding and is determined using the simplified method, which deems the term to be the average of the time to vesting and the contractual life of the Earnout Shares.

Note 11. Equity Incentive Plans and Stock-Based Compensation

As of June 30, 2023, the Company had a remaining allocated reserve of 29,557,352 shares of its common stock for issuance under its 2021 Equity Incentive Plan (the "2021 EIP"), which provides for the granting of stock options, restricted stock units ("RSUs") and stock appreciation rights to employees, directors, and consultants of the Company. As of June 30, 2023, the Company had an allocated reserve of 7,371,214 shares of its common stock for issuance under its 2021 Employee Stock Purchase Plan ("2021 ESPP"). As of June 30, 2023, the Company had not begun any offering periods for the 2021 ESPP.

Stock options

Activity under the 2021 EIP is set forth below:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in years
	(In thousands)	(Per share data)	(Years)
Outstanding as of December 31, 2021	21,191	$ 0.58	8.2
Granted	—	$ —	
Exercised	(1,547)	$ 0.36	
Forfeited or expired	(107)	$ 5.67	
Outstanding as of June 30, 2022	19,537	$ 0.57	7.4
Options vested and expected to vest as of June 30, 2022	19,537	$ 0.57	
Vested and exercisable as of June 30, 2022	10,345	$ 0.66	
Outstanding as of December 31, 2022	16,960	$ 0.54	7.3
Granted	—	$ —	
Exercised	(1,296)	$ 0.29	
Forfeited or expired	(407)	$ 0.62	
Outstanding as of June 30, 2023	15,257	$ 0.56	6.7
Options vested and expected to vest as of June 30, 2023	15,257	$ 0.56	
Vested and exercisable as of June 30, 2023	11,559	$ 0.64	

The aggregate intrinsic value of options outstanding was $27.3 million and $24.4 million, respectively, as of June 30, 2023 and December 31, 2022. Intrinsic value of options exercised for the six months ended June 30, 2023 and 2022 was $3.8 million and $5.0 million, respectively. The total grant date fair value of options vested was $0.4 million and $1.1 million for the six months ended June 30, 2023 and 2022, respectively.

As of June 30, 2023, total unrecognized compensation cost related to options was $0.6 million related to 3.7 million unvested options and is expected to be recognized over a weighted-average period of 1.3 years.

For the six months ended June 30, 2023, there were no options granted.

Restricted Stock Units

The fair value of RSUs under the Company's 2021 EIP is estimated using the value of the Company's common stock on the date of grant.

The following table summarizes outstanding and expected to vest RSUs as of June 30, 2023 and 2022 and their activity during the six months ended June 30, 2023 and 2022:

	Number of Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
	(In thousands)	(Per share data)	(In thousands)
Balance as of December 21, 2021	4,041	$ 7.26	$ 31,563
Granted	1,489	4.87	7,334
Released	(130)	7.21	789
Cancelled	(44)	7.26	259
Balance as of June 30, 2022	5,356	$ 6.60	$ 7,391
Expected to vest as of June 30, 2022	5,356	$ 6.60	$ 7,391
Balance as of December 31, 2022	9,623	$ 4.47	$ 17,225
Granted	5,693	2.11	12,024
Released	(1,640)	3.83	3,635
Cancelled	(1,449)	4.27	3,531
Balance as of June 30, 2023	12,227	$ 3.48	$ 26,411
Expected to vest as of June 30, 2023	12,227	$ 3.48	$ 26,411

The aggregate intrinsic value of outstanding RSUs is calculated based on the closing price of the Company's common stock as of the date outstanding. As of June 30, 2023, there was $37.3 million of unrecognized compensation cost related to 12.2 million unvested RSUs, which is expected to be recognized over a weighted average period of approximately 2.7 years. As of June 30, 2022, there was $31.0 million of unrecognized compensation cost related to 5.4 million unvested RSUs, which is expected to be recognized over a weighted average period of approximately 3.3 years.

Earnout Shares - Employees

The Earnout Shares issuable to holders of employee stock options are accounted as stock-based compensation expense as they are subject to forfeiture based on the satisfaction of certain employment conditions. The estimated fair values of the Earnout Shares associated with vested stock options are recognized as an expense and determined by the Monte Carlo simulation valuation model using a distribution of potential outcomes on a monthly basis over the five-year earnout period. The portion of the Earnout Shares associated with unvested stock options are recognized as an expense and considers the vesting continuing employment requirements.

Stock-based Compensation Expense

The following sets forth the total stock-based compensation expense by type of award included in the statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Restricted stock units	$ 4,745	$ 2,550	$ 8,803	$ 4,990
Stock options	119	484	868	1,059
Earnout shares - employees	1,671	1,942	3,100	3,884
	$ 6,535	$ 4,976	$ 12,771	$ 9,933

The following sets forth the total stock-based compensation expense for the stock options and RSUs included in the statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Research and development	$ 3,056	$ 2,488	$ 5,989	$ 5,079
Selling and marketing	1,586	1,142	3,081	2,255
General and administrative	1,893	1,346	3,701	2,599
	$ 6,535	$ 4,976	$ 12,771	$ 9,933

Note 12. Income Taxes

The income tax provision is calculated for an interim period by distinguishing between elements recognized in the income tax provision through applying an estimated annual effective tax rate (the "ETR") to a measure of year-to-date operating results referred to as "ordinary income (or loss)," and discretely recognizing specific events referred to as "discrete items" as they occur. The income tax provision or benefit for each interim period is the difference between the year-to-date amount for the current period and the year-to date amount for the period prior. Under ASC 740-270-30-36, entities subject to income taxes in multiple jurisdictions should apply one overall ETR instead of separate ETRs for each jurisdiction when calculating the interim-period income tax or benefit related to ordinary income (or loss) for the year-to-date interim period, except in certain circumstances. The Company's effective tax rates for the three and six months ended June 30, 2023 and 2022 differ from the federal statutory rate principally as a result of valuation allowances expected to be applied to net operating loss carry-forwards which will not meet the threshold for recognition as deferred tax assets.

Note 13. Commitments and Contingencies

The Company may be involved in various lawsuits, claims, and proceedings, including intellectual property, commercial, securities, and employment matters that arise in the normal course of business. The Company accrues a liability when management believes information available prior to the issuance of the condensed consolidated financial statements indicates it is probable a loss has been incurred as of the date of the condensed consolidated financial statements and the amount of loss can be reasonably estimated. The Company adjusts its accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Legal costs are expensed as incurred. As of June 30, 2023 and December 31, 2022, the Company is not aware of any litigation, claim or assessment in which the outcome, individually or in the aggregate, would have a material adverse effect on its financial positions, results of operations, cash flows or future earnings.

The Company's purchase commitments per terms and conditions with suppliers and vendors are cancellable in whole or in part prior to shipment. Non-cancellable purchase commitments (purchase orders) of $39.5 million for parts and assemblies are due upon receipt and will primarily be delivered in the second half of 2023 and early 2024. If inventory is shipped, the Company will accrue a liability under accrued expenses. The Company has no other commitment and contingencies, except for the operating leases. See Note 8, *Leases*, for further discussion.

Note 14. Employee Defined-Contribution Plans

The Company has a defined-contribution plan intended to qualify under Section 401 of the Internal Revenue Code (the "401(k) Plan"). The Company contracted with a third-party provider to act as a custodian and trustee, and to process and maintain the records of participant data. Substantially all of the expenses incurred for administering the 401(k) Plan are paid by the Company. Accrued salaries and benefits included accruals related to the 401(k) plans the Company offers to its employees. In order to qualify for these plans, employees must meet the minimum age requirement (21 years) and begin participating on their entry date which is the first paycheck date in the month following the month of eligibility described above. Employee and employer contributions are immediately 100% fully vested. The plans offer employer contributions of 3.0% of an employee's eligible compensation following safe-harbor rules. The Company's contribution to the 401(k) plan was $0.3 million and $0.3 million for the three months ended June 30, 2023 and 2022, respectively, and $0.7 million and $0.6 million for the six months ended June 30, 2023 and 2022, respectively. The Company has paid all matching contributions as of June 30, 2023.

Note 15. Revenue

Customer Concentration

The customer concentration for balances greater than 10% of revenues and 10% of accounts receivables, net, respectively, are presented below:

	Total Revenue				Accounts Receivable, Net	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December 31,
	2023	2022	2023	2022	2023	2022
	(as a percentage)					
Customer 1	<10 %	— %	11.3 %	— %	<10 %	— %
Customer 2	23.4 %	— %	11.3 %	— %	13.4 %	— %
Customer 3	11.5 %	12.5 %	10.4 %	<10 %	— %	<10 %
Customer 4	— %	13.8 %	<10 %	<10 %	<10 %	<10 %
Customer 5	12.1 %	— %	<10 %	— %	14.5 %	— %
Customer 6	11.3 %	— %	<10 %	— %	— %	<10 %
Customer 7	<10 %	22.7 %	<10 %	39.1 %	<10 %	<10 %

Revenue by Geographic Area

The Company currently sells its products in the geographic regions as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Americas	$ 20,923	$ 19,555	$ 43,213	$ 31,659
Europe	4,173	38	8,598	73
Other	38	51	137	130
Total	$ 25,134	$ 19,644	$ 51,948	$ 31,862

Contract Assets and Liabilities

There was $0.9 million and $1.8 million of revenue recognized during the three and six months ended June 30, 2023, respectively, included in contract liabilities as of December 31, 2022. The amount of revenue recognized during the three and six months ended June 30, 2022 included in contract liabilities as of December 31, 2021 was $0.8 million and $1.6 million, respectively. The change in contract assets reflects the difference in timing between the Company's satisfaction of remaining performance obligations and the Company's contractual right to bill its customers. The Company had no material asset impairment charges related to contract assets in the periods presented.

Variable Consideration

The Company estimates its variable consideration on a quarterly basis based on the latest data available, and adjust the transaction price accordingly by recording an adjustment to net revenue and contract assets. The Company has recognized the estimate of variable consideration to the extent that it is probable that a significant reversal will not occur as a result from a change in estimation. Revenue related to variable consideration represented $0.0 million and $0.1 million of the Company's revenue during the three months ended June 30, 2023 and 2022, respectively, and $0.0 million and $0.1 million for the six months ended June 30, 2023 and 2022, respectively.

Note 16. At-the-Market Offering

On February 6, 2023, the Company entered into the ATM Sales Agreement with Needham, as agent, pursuant to which the Company may offer and sell, from time to time through Needham, shares of its common stock. As of the three and six months ended June 30, 2023, the Company has sold $5.1 million and $15.6 million of shares, respectively, net of issuance costs of $0.4 million and $1.0 million, respectively.

The offer and sale of the shares of common stock will be made pursuant to the Shelf Registration Statement and a related prospectus supplement and accompanying prospectus. Pursuant to the prospectus supplement and the ATM Sales Agreement, the Company may offer and sell up to $40 million of shares of common stock pursuant to its Shelf Registration Statement. Sales of shares, if any, under the prospectus supplement and the accompanying prospectus may be made by any method permitted that is deemed to be an "at the market offering" as defined in Rule 415(a)(4) promulgated under the Securities Act.

The Company will pay Needham commissions for its services in acting as agent in the sale of the shares pursuant to the ATM Sales Agreement. Needham will be entitled to compensation at a fixed commission rate equal to 3.0% of the aggregate gross proceeds from each sale of the shares pursuant to the ATM Sales Agreement. The Company has agreed to provide Needham with customary indemnification and contribution rights, including for liabilities under the Securities Act. The Company also will reimburse Needham for certain specified expenses in connection with entering into the ATM Sales Agreement. The Sales Agreement contains customary representations and warranties and conditions to the placements of the shares pursuant thereto.

Note 17. Subsequent Events

Offering of Senior Secured Convertible Notes

On August 10, 2023, the Company entered into the Securities Purchase Agreement with the Investor pursuant to which the Company agreed to issue and sell in the Offering up to $105 million aggregate principal amount of Notes.

On August 14, 2023 (the "Initial Closing Date"), the Company issued $70 million aggregate principal amount of the Initial Notes to the Investor. In addition, the Company has granted the Investor the right to purchase up to an additional $35 million aggregate principal amount of the Notes (the "Additional Notes") so long as the notice to exercise such option is provided no later than the first anniversary of the Initial Closing Date.

The Company estimates the net proceeds from the sale of the Initial Notes will be approximately $66 million, after deducting estimated fees and expenses payable by the Company. On the Initial Closing Date, the Company used approximately $22 million of the net proceeds from the Offering to repay in full the outstanding indebtedness under the Loan Agreement. The Company plans to use the remaining net proceeds for working capital, capital expenditures and general corporate purposes.

The Notes are senior secured obligations of the Company and will be effectively senior to all of the Company's unsecured indebtedness to the extent of the collateral securing the Notes. Aside from the foregoing, the Notes will rank *pari passu* with all of the Company's other senior indebtedness and senior to any of the Company's subordinated indebtedness.

As of the Initial Closing Date, the Notes are secured by a first lien security interest in the Company's and its wholly-owned subsidiary Velo3D US, Inc.'s assets, including, but not limited to, the Company's intellectual property (subject to prior liens and other customary exclusions, in each case, acceptable to the collateral agent for the Notes (the "Collateral Agent") in its sole discretion) other than the Company's and such subsidiary's non-U.S. assets and the Company's and such subsidiary's bank accounts (collectively, the "Initial Collateral"). The Notes provide that at or before 30 days after the Initial Closing Date (which period may be extended in the reasonable discretion of the Collateral Agent), the Company will deliver to the Collateral Agent such additional security documents, in form and substance reasonably acceptable to the Collateral Agent, which perfect a first lien security interest in all the Company's remaining assets (subject to prior liens and other customary exclusions, in each case, acceptable to the Collateral Agent in its sole discretion).

The Notes bear interest at 6.00% per annum, payable quarterly in cash on January 1, April 1, July 1 and October 1 of each year, commencing on October 1, 2023, and will mature on August 1, 2026 (the "Maturity Date"). When the Company repays principal on the Notes pursuant to the terms of the Notes, it will be required to pay 115% of the principal amount repaid (the "Repayment Price") plus accrued interest.

On the first day of each three-month period beginning on January 1, 2024 (a "Partial Redemption Date"), holders of the Notes may require the Company to redeem a portion of the principal amount of the Notes at the Repayment Price plus accrued interest. The aggregate principal amount of the Initial Notes that will be redeemable on a Partial Redemption Date will be $8,750,000 for a Repayment Price of $10,062,500.

Subject to certain exceptions, upon the completion of certain equity financings at a price below the conversion price of the Notes, holders of the Notes will have the right to require the Company to use up to 15% of the gross proceeds of the equity financing to redeem a portion of the principal amount of the Notes at the Repayment Price plus accrued interest.

Holders of the Notes will also have the right to require the Company to repurchase all or a portion of their Notes upon the occurrence of certain corporate events constituting a "fundamental change" at the greater of (a) 110% of the conversion value (calculated based on the 5-day volume-weighted-average price ("VWAP") of the Company's common stock during the period beginning on the later of the five VWAP trading days prior to the effective date of such fundamental change and the five VWAP trading days prior to the public announcement of such fundamental change) and (b) 100% of the Repayment Price plus accrued interest.

Holders of the Notes may convert their Notes into shares of the Company's common stock at any time prior to the Maturity Date. The Notes have an initial conversion rate of 475.1722 shares of the Company's common stock per $1,000 principal amount of the Notes (equivalent to an initial conversion price of approximately $2.10 per share of the Company's common stock). The initial conversion price will adjust to 110% of the average of the three daily VWAPs of the Company's common stock during the three trading day period ending on and including August 17, 2023, if such average is lower than the initial conversion price, with a corresponding adjustment to the conversion rate. The conversion rate will also be subject to customary anti-dilution adjustments and adjustments for certain corporate events. Subject to certain conditions, the Company can require conversion of the Notes if the closing price of the Company's common stock exceeds 175% of the conversion price for at least 20 VWAP trading days in a 30 consecutive VWAP trading day period.

The Notes contain customary affirmative and negative covenants (including covenants that limit the Company's ability to incur debt, make investments, transfer assets, engage in certain transactions with affiliates and merge with other companies, in each case, other than those permitted by the Notes) and events of default. Furthermore, the Company will be required to maintain a minimum of $30 million of unrestricted cash and cash equivalents and to maintain minimum levels of quarterly revenue through the quarter ended June 30, 2026 specified in the Notes. If an event of default occurs, the holders of the Notes may declare the Notes due and payable for cash in an amount equal to the Event of Default Acceleration Amount (as defined in the Notes).

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

The following discussion and analysis provides information which our management believes is relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 and our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report. This discussion contains forward-looking statements based upon our current expectations, estimates and projections, and involves numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements due to, among other considerations, the matters discussed in the sections titled "Risk Factors" and "Forward-looking Statements" herein.

Overview

We seek to fulfill the promise of additive manufacturing ("AM"), also referred to as three-dimensional printing ("3D printing"), to deliver breakthroughs in performance, cost, and lead time in the production of high value metal parts.

We produce a fully integrated hardware and software solution based on our proprietary laser powder bed fusion ("L-PBF") technology, which greatly reduces and often eliminates the need for support structures. Our technology enables the production of highly complex, mission-critical parts that existing AM solutions cannot produce without the need for redesign or additional assembly.

Our Sapphire family of systems (collectively referred to as the "3D Printers") give our customers who are in space, aviation, defense, automotive, energy and industrial markets the freedom to design and produce metal parts with complex internal features and geometries that had previously been considered impossible for AM. We believe our technology is years ahead of competitors.

Our technology is novel compared to other AM technologies based on its ability to deliver high-value metal parts that have complex internal channels, structures, and geometries. This affords a wide breadth of design freedom for creating new metal parts and it enables replication of existing parts without the need to redesign the part to be manufacturable with AM. Because of these features, we believe our technology and product capabilities are highly valued by our customers. Our customers are primarily original equipment manufacturers ("OEMs") and contract manufacturers ("CMs") who look to AM to solve issues with traditional metal parts manufacturing technologies. Those traditional manufacturing technologies rely on processes, including casting, stamping and forging, that typically require high volumes to drive competitive costs and have long lead times for production. Our customers look to AM solutions to produce assemblies that are lighter, stronger, and more reliable than those manufactured with traditional technologies. Our customers also expect AM solutions to drive lower costs for low-volume parts and substantially shorter lead times. However, many of our customers have found that legacy AM technologies failed to produce the required designs for the high-value metal parts and assemblies that our customers wanted to produce with AM. As a result, other AM solutions often require that parts be redesigned so that they can be produced and frequently incur performance losses for high-value applications.

In contrast, our technology can deliver complex high value metal parts with the design advantages, lower costs and faster lead times associated with AM, and generally avoids the need to redesign the parts. As a result, our customers have increasingly adopted our technology into their design and production processes. We believe our value is reflected in our sales patterns, as most customers purchase a single machine to validate our technology and purchase additional systems over time as they embed our technology in their product roadmap and manufacturing infrastructure. We consider this approach a "land and expand" strategy, oriented around a demonstration of our value proposition followed by increasing penetration with key customers.

Key Financial and Operational Metrics

We believe that our performance and future success depend on many factors that present significant opportunities for us but also pose risks and challenges, including those discussed below and in the section of this Quarterly Report titled "*Risk Factors*."

We regularly evaluate several metrics, including the metrics presented in the table below, to measure our performance, identify trends affecting our business, prepare financial projections, make strategic decisions and establish performance goals for compensation and we periodically review and revise these metrics to reflect changes in our business.

	As of and for the Three Months Ended June 30,		As of and for the Six months ended June 30,	
	2023	2022	2023	2022
Revenue ($ in millions)	$ 25	$ 20	$ 52	$ 32
Bookings ($ in millions)	$ 16	$ 18	$ 36	$ 36
Backlog ($ in millions)	$ 15	$ 55	$ 15	$ 55

Bookings ($ in millions): Bookings ($ in millions) are defined as a confirmed order for a 3D printer system in contracted dollars.

Backlog ($ in millions): Backlog ($ in millions) is defined as the unfulfilled 3D printer systems to be delivered to customers in contracted dollars as of period end.

Customer Concentration

Our operating results for the foreseeable future will continue to depend on sales to a small group of customers. For the three months ended June 30, 2023 and 2022, sales to the top three customers accounted for 47.0% and 65.1%, respectively. Of the top three customers for the three months ended June 30, 2023, all customers were different from the top three customers for the comparable period in 2022. For the six months ended June 30, 2023 and 2022, sales to the top three customers accounted for 33.0% and 65.6%, respectively. Of the top three customers for the three months ended June 30, 2023 all customers were different from the top three customers for the comparable period in 2022.

While our objective is to diversify our customer base, we believe that we could continue to be susceptible to risks associated with customer concentration. See "*Risk Factors—Risks Related to Our Business—Risks Related to Our Financial Position and Need for Additional Capital —We expect to rely on a limited number of customers for a significant portion of our near-term revenue"* in our Annual Report on Form 10-K for the year ended December 31, 2022 and see Note 2, *Summary of Significant Accounting Policies*—Concentration of Credit Risk and Other Risks and Uncertainties, in the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Continued Investment and Innovation

We continue to be a customer-focused company working to develop innovative solutions to address customers' needs and focus on our customers to identify the most impactful areas for research and development as we seek to further improve the capabilities of our AM solutions. We believe this process has contributed significantly to our development of the most advanced metal AM systems in the world. We believe that continued investments in our products are important to our future growth and, as a result, we expect our research and development expenses to continue to increase, which may adversely affect our near-term profitability.

Impact of World Events

In May 2023, the World Health Organization announced that the COVID-19 pandemic no longer qualifies as a global emergency. Nevertheless, we may continue to face various risks and uncertainties related to the effect of the COVID-19 pandemic. For example, we may be impacted by various supply chain constraints, travel restrictions that limit our ability to sell, install and service our additive manufacturing systems, government-enforced workplace restrictions and/or other future pandemic related mandates, which may adversely impact our operations.

General economic and political conditions such as recessions, interest rates, fuel prices, actual or perceived instability in the U.S. or global banking systems, inflation, foreign currency fluctuations, international tariffs, social, political and economic risks and acts of war or terrorism (including, for example, the ongoing military conflict between Ukraine and Russia and the economic sanctions related thereto), have added uncertainty in timing of customer orders and supply chain constraints.

During 2022, supply chain challenges increased our material and shipping costs, resulted in shipping delays and impacted our gross margins. We implemented a number of supply chain and manufacturing improvements in response and intend to continue to focus on driving further operational improvements during 2023 as well as company-wide initiatives to reduce operating costs.

Climate Change

Material pending or existing climate change-related legislation, regulations, and international accords could have an adverse effect on our business, financial condition, and results of operations, including: (1) material past and/or future capital expenditures for climate-related projects, (2) material indirect consequences of climate-related regulation or business trends, such as the following: decreased/increased demand for goods or services that produce significant greenhouse gas emissions or are related to carbon-based energy sources; increased competition to develop innovative new products that result in lower emissions; increased demand for generation and transmission of energy from alternative energy sources; and any anticipated reputational risks resulting from operations or products that produce material greenhouse gas emissions and (3) material increased compliance costs related to climate change. In addition, extreme weather and other natural disasters may become more intense or more frequent, which may disrupt our operations or the operations of our suppliers and customers.

Components of Results of Operations

Revenue

Our revenue is primarily derived from our AM fully integrated hardware and software solution based on our proprietary L-PBF technology. Sapphire, Sapphire 1MZ, Sapphire XC and Sapphire XC 1MZ metal AM printer using our L-PBF technology and Assure quality validation software (collectively referred to as the "3D Printer"). Contracts for 3D Printers also include post-sale customer support services ("Support Services"), except for our distributor partners, which are qualified to perform support services.

We sell our fully integrated hardware and software AM solutions through two types of transaction models: a 3D Printer sale transaction and a recurring payment transaction ("Recurring Payment"). Support services are included with a 3D Printer sale transaction and a recurring payment transaction. For 3D Printer sale transactions where the support service period have expired, customers have purchased extended support service contracts.

3D Printer sale transactions - fall into two categories: a structured fixed purchase price for the system or a sale and utilization (variable consideration) fee model. In the sale and utilization fee model, customers pay an upfront amount that is less than the full purchase price to purchase the system. This purchase price is supplemented by an hourly usage fee for each hour of system utilization over the life of the system. The variable payments are recognized when the event determining the amount of variable consideration to be paid occurs. Sales with variable consideration represented \$0.0 million and \$0.1 million of our revenue during the three months ended June 30, 2023 and 2022, respectively. Sales with variable consideration represented \$0.0 million and \$0.1 million of our revenue during the six months ended June 30, 2023 and 2022, respectively. For more information, see "*—Critical Accounting Policies and Significant Estimates—Revenue – Variable Consideration*" in Part II, Item 7 "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" of our Annual Report on Form 10-K for the year ended December 31, 2022.

The timeframe from order to completion of the site acceptance test occurs normally over three to six months. As we scale our production, we expect to reduce this timeframe. Contract consideration allocated to the 3D Printer is recognized at a point in time, which occurs upon transfer of control to the customer at shipment.

The initial sales of 3D Printers and Support Services are included in one contract and are invoiced together. Contract consideration is allocated between the two performance obligations based on relative fair value. This allocation involves judgement and is periodically updated as new relevant information becomes available.

Recurring payment transactions - are our leased 3D Printer transactions. We define our Recurring Payment transactions as operating leases. Under the leased 3D Printer transaction, the customer typically pays an amount for a lease which entitles the customer to a base number of hours of usage. For usage above that level, the customer typically pays an hourly usage fee. Most of our leases have a 12-month term, though in certain cases the lease term is longer.

The Recurring Payment transactions, which are structured as operating leases, were 0.1% and 4.8% of revenue for the three months ended June 30, 2023 and 2022, respectively. The Recurring Payment transactions were 1.2% and 5.8% of revenue for the six months ended June 30, 2023 and 2022, respectively. Under this model, the customer typically pays a base rent and variable payments based on usage in excess of a defined threshold. Most of our leases have a 12-month term, though in certain cases the lease term is longer.

Support Services - are included with most 3D Printer sale transactions and Recurring Payment transactions. Support services consist of field service engineering, phone and email support, preventative maintenance, and limited on and off-site consulting support. A subsequent Extended Support Agreement is available for renewal after the initial contract period based on the then-fair value of the service, which is paid for separately. Support Service revenue is recognized over the contract period beginning with customer performance test acceptance.

Other revenue included under 3D Printer sales includes parts and consumables, such as filters, powder or build plates, that are sold to customers and recognized upon transfer of control to the customer at shipment. Other revenue was not material for the three months ended June 30, 2023 and 2022, respectively.

Cost of Revenue

Our cost of revenue includes the "*Cost of 3D Printers*," "*Cost of Recurring Payment*" and "*Cost of Support Services*."

Cost of 3D Printers includes the manufacturing cost of our components and subassemblies purchased from vendors for the assembly, as well as raw materials and assemblies, shipping costs and other directly associated costs. Cost of 3D Printers also includes allocated overhead costs from headcount-related costs, such as salaries, stock-based compensation, depreciation of manufacturing related equipment and facilities, and information technology costs.

Cost of Recurring Payment includes depreciation of the leased equipment over the useful life of five years less the residual value, and an allocated portion of Cost of Support Services.

Cost of Support Services includes the cost of spare or replacement parts for preventive maintenance, installation costs, headcount-related costs such as salaries, stock-based compensation, depreciation of manufacturing related equipment and facilities, and information technology costs. The headcount-related costs are directly associated with the engineers dedicated to remote and on-site support, training, travel costs and other services costs.

Gross Profit and Gross Margin

Our gross profit is revenue less cost of revenue and our gross margin is gross profit as a percentage of revenue. The gross profit and gross margin for our products are varied and are expected to continue to vary from period to period due to the mix of products sold through either a 3D Printer sale transaction or a Recurring Payment transaction, new product introductions and efforts to optimize our operational costs. Other factors affecting our gross profit include changes to our material costs, assembly costs that are themselves dependent upon improvements to yield, and any increase in assembly overhead to support a greater number of 3D Printers sold and markets served.

Research and Development Expenses

Our research and development expenses represent costs incurred to support activities that advance the development of innovative AM technologies, new product platforms and consumables, as well as activities that enhance the capabilities of our existing product platforms. Our research and development expenses consist primarily of salaries and related personnel costs for individuals working in our research and development departments, including stock-based compensation, prototypes, design expenses, information technology costs and software license amortization, consulting and contractor costs, and an allocated portion of overhead costs, including depreciation of property and equipment used in research and development activities.

Selling and Marketing Expenses

Sales and marketing expenses consist primarily of salaries and related personnel costs for individuals working in our sales and marketing departments, including stock-based compensation, costs related to trade shows and events, advertising, marketing promotions, travel costs and an allocated portion of overhead costs, including information technology costs and costs for customer validation.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related personnel costs for individuals associated with our executive, administrative, finance, legal, information technology and human resources functions, including stock-based compensation, professional fees for legal, audit and compliance, accounting and consulting services, general corporate costs, facilities, rent, information technology costs, insurance, bad debt expenses and an allocated portion of overhead costs, including equipment and depreciation and other general and administrative expenses.

Interest Expense

Interest expense primarily consists of interest incurred under our outstanding debt and finance leases.

Gain (Loss) on Fair Value of Warrants

Gain (loss) on valuation of warrant liabilities relates to the changes in the fair value of warrant liabilities, including liabilities related to the public warrants and private placement warrants, which are subject to remeasurement at each balance sheet date.

Gain (Loss) on Fair value of Contingent Earnout Liabilities

Gain (loss) on valuation of contingent earnout liabilities relates to the changes in fair value of the contingent earnout liabilities in connection with the earnout shares, which are subject to remeasurement at each balance sheet date. See Note 10, *Equity Instruments—Contingent Earnout Liabilities*, in the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

Other Income (Expense), Net

Other income (expense), net includes interest earned on our bank sweep account, gains and losses on disposals of fixed assets and other miscellaneous income/expenses.

Income Taxes

No provision for federal and state income taxes was recorded for any periods presented due to projected losses, and we maintained a full valuation allowance on the deferred tax assets as of June 30, 2023 and June 30, 2022.

We will continue to review our conclusions about the appropriate amount of the valuation allowance on a quarterly basis. If we were to generate profits, the U.S. valuation allowance position could be reversed in the foreseeable future. We expect a benefit to be recorded in the period the valuation allowance reversal is recorded and a higher effective tax rate in periods following the valuation allowance reversal.

Results of Operations

Comparison of the Three Months Ended June 30, 2023 and 2022:

The following table summarizes our historical results of operations for the periods presented:

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Change	%
	(In thousands, except for percentages)			
Revenue				
3D Printer	$ 23,190	$ 17,615	$ 5,575	31.6 %
Recurring payment	35	934	(899)	(96.3)%
Support services	1,909	1,095	814	74.3 %
Total Revenue	25,134	19,644	5,490	27.9 %
Cost of revenue				
3D Printer	19,728	15,633	4,095	26.2 %
Recurring payment	335	685	(350)	(51.1)%
Support services	2,091	2,094	(3)	(0.1)%
Total cost of revenue	22,154	18,412	3,742	20.3 %
Gross profit	2,980	1,232	1,748	141.9 %
Operating expenses				
Research and development	12,454	12,965	(511)	(3.9)%
Selling and marketing	6,108	6,249	(141)	(2.3)%
General and administrative	10,124	8,259	1,865	22.6 %
Total operating expenses	28,686	27,473	1,213	4.4 %
Loss from operations	(25,706)	(26,241)	535	(2.0)%
Interest expense	(344)	(92)	(252)	273.9 %
Gain on fair value of warrants	828	23,665	(22,837)	(96.5)%
Gain on fair value of contingent earnout liabilities	1,843	130,227	(128,384)	(98.6)%
Other income, net	178	391	(213)	(54.5)%
Income (loss) before provision for income taxes	(23,201)	127,950	(151,151)	(118.1)%
Provision for income taxes	—	—	—	— %
Net income (loss)	$ (23,201)	$ 127,950	$ (151,151)	(118.1)%

Revenue

The following table presents the revenue disaggregated by products and service type, as well as the percentage of total revenue.

	Three Months Ended June 30,					
	2023		2022		Change	%
	(In thousands, except for percentages)					
3D Printer sales	$ 23,190	92.3 %	$ 17,615	89.6 %	$ 5,575	31.6 %
Recurring payment	35	0.1 %	934	4.8 %	(899)	(96.3)%
Support services	1,909	7.6 %	1,095	5.6 %	814	74.3 %
Total Revenue	$ 25,134	100.0 %	$ 19,644	100.0 %	$ 5,490	27.9 %

Total revenue for the three months ended June 30, 2023 and 2022 was $25.1 million and $19.6 million, respectively, an increase of $5.5 million, or 27.9%.

3D Printer sales were $23.2 million and $17.6 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $5.6 million. The improvement in revenue was due to a change in our product mix toward more Sapphire XC and Sapphire XC 1MZ systems compared to Sapphire systems and fewer launch customer and early reservation shipments at discounted prices, resulting in an increase in the average selling price. The 3D Printer sales included parts and consumables revenue.

Recurring Payment, structured as an operating lease, was less than $0.1 million and $0.9 million for the three months ended June 30, 2023 and 2022, respectively. The decrease was primarily attributable to a decrease in the number of 3D Printer systems in service generating Recurring Payment revenue as of June 30, 2023, compared to the number of 3D Printer systems in service as of June 30, 2022, and a revenue reduction related to increased bad debt expense in the three months ended June 30, 2023.

Our Support Service revenue was $1.9 million and $1.1 million for the three months ended June 30, 2023 and 2022, respectively. The increase was primarily attributable to a significant increase in the number of 3D Printer systems in service as of June 30, 2023, compared to the number of 3D Printers in service as of June 30, 2022.

We expect the demand for the Sapphire, Sapphire 1MZ, Sapphire XC and Sapphire XC 1MZ to drive future revenue growth. We also expect our Recurring Payment and Support Service revenue to increase as the number of systems we have in the field increases. As of June 30, 2023, our backlog for firm orders was $15 million for 3D Printers. Our focus for revenue remains on expanding our selling and marketing efforts and developing our existing customer network to increase demand.

Cost of Revenue

The following table presents the Cost of Revenue disaggregated by product and service type, as well as the percentage of total cost of revenue.

	Three Months Ended June 30,					
	2023		2022		Change	%
	(In thousands, except for percentages)					
Cost of Revenue						
Cost of 3D Printers	$ 19,728	89.1 %	$ 15,633	84.9 %	$ 4,095	26.2 %
Cost of Recurring Payment	335	1.5 %	685	3.7 %	(350)	(51.1)%
Cost of Support Services	2,091	9.4 %	2,094	11.4 %	(3)	(0.1)%
Total Cost of Revenue	$ 22,154	100.0 %	$ 18,412	100.0 %	$ 3,742	20.3 %

Total cost of revenue for the three months ended June 30, 2023 and 2022 was $22.2 million and $18.4 million, respectively, an increase of $3.7 million, or 20.3%.

Cost of 3D Printers was $19.7 million and $15.6 million for the three months ended June 30, 2023 and 2022, respectively. The increase of $4.1 million was due to a change in our product mix towards more Sapphire XC and Sapphire XC 1MZ systems, which have a higher total per system cost compared to the Sapphire, for the three months ended June 30, 2023 compared to 2022.

Cost of Recurring Payment was $0.3 million and $0.7 million for the three months ended June 30, 2023 and 2022, respectively. This decrease of $0.4 million was due to a decrease in the number of 3D Printer systems in service incurring costs related to Recurring Payment revenue as of June 30, 2023, compared to June 30, 2022.

Cost of Support Services was $2.1 million and $2.1 million for the three months ended June 30, 2023 and 2022, respectively. Cost of Support Services remained flat because, although there were more 3D Printers in service as of June 30, 2023, compared to June 30, 2022, Cost of Support Services decreased on a per unit basis due to preventative maintenance we performed and enhancements we made to system reliability performance. We expect Cost of Support Services to continue to decrease on a per unit basis as the Sapphire XC, Sapphire 1MZ and Sapphire XC 1MZ system performance improves. We expect our Cost of Support Services will increase with the delivery of more 3D Printer systems to customers.

Cost of revenue as a percentage of revenue was 88.1% and 93.7% for the three months ended June 30, 2023 and 2022, respectively. The decrease in the cost of revenue as a percentage was primarily due to a per system reduction in material costs for our Sapphire family of systems and improved manufacturing efficiency offset by the change in our product mix towards more Sapphire XC and Sapphire XC 1MZ systems compared to Sapphire systems.

We continue to focus on reducing our material costs through improved purchasing and inventory planning, accelerating production cycle times and improving efficiencies on the production floor, to lower our cost of revenue. We expect our cost of revenue as a percentage of revenue to continue to improve as we address material costs and manufacturing efficiency, and as our production volume increases and system reliability performance improves.

Gross Profit and Gross Margin

Total gross profit (loss) was $3.0 million and $1.2 million for the three months ended June 30, 2023 and 2022, respectively. As a percentage of revenue, the gross margin was 11.9% and 6.3% for the three months ended June 30, 2023 and 2022, respectively. The higher gross profit for the three months ended June 30, 2023 was primarily attributable to higher average selling prices for our Sapphire family of systems, and improved manufacturing efficiencies, during the three months ended June 30, 2023, as compared to the three months ended June 30, 2022.

Our gross profit and gross margin are influenced by a number of factors, including:

- Product mix of Sapphire, Sapphire XC, Sapphire 1MZ and Sapphire XC 1MZ systems;
- Average selling prices for our systems;
- Trends in materials and shipping costs;
- Production volumes that may impact factory overhead absorption;
- System reliability performance; and
- Cost of our Support Services and product support may be influenced by product mix changes, including new product introductions, and other factors.

During the remainder of 2023, we expect our gross margins will continue to increase due to higher average selling prices, reductions in material costs, improvements to manufacturing efficiency, and increased production volume.

Research and Development Expenses

Research and development expenses were $12.5 million and $13.0 million for the three months ended June 30, 2023 and 2022, respectively, a decrease of $0.5 million. The decrease in research and development expenses in 2023 was driven by a $1.4 million decrease in materials cost and a $0.2 million decrease in headcount, salaries and employee-related expenses, offset by an increase of $0.6 million in stock-based compensation and an increase of $0.4 million in other operating expenses.

We expect research and development costs to stabilize over time as our Sapphire family of systems mature, while we continue to invest in enhancing and advancing our portfolio of AM solutions.

Selling and Marketing Expenses

Selling and marketing expenses were $6.1 million and $6.2 million for the three months ended June 30, 2023 and 2022, respectively, a decrease of $0.1 million. This slight decrease was attributable to a $0.4 million decrease in European marketing costs and a $0.1 million decrease in headcount, salaries and employee-related expenses, offset by an increase of $0.4 million in stock-based compensation.

We expect selling and marketing expenses to stabilize over 2023 because we have built up our European marketing team and have completed marketing campaigns with the launch of the Sapphire XC. During the remainder of 2023, we intend to focus on certain markets that show strong attendance at additive manufacturing conferences to build product awareness.

General and Administrative Expenses

General and administrative expenses were $10.1 million and $8.3 million for the three months ended June 30, 2023 and 2022, respectively, an decrease of $1.9 million. The increase was attributable to a $1.2 million increase in public company-related expenses in advisory, legal and accounting fees and insurance, a $0.1 million increase in facilities expenses, and an increase of $0.6 million in stock-based compensation.

We expect general and administrative expenses to decrease as a result of stabilizing headcount and operations. We have started company-wide initiatives to reduce operating costs in 2023. We expect to incur costs as we hire additional personnel and enhance our infrastructure to support the anticipated growth of the business, but that the overall impact of these costs will be offset by reducing our general and administrative expenses through reducing outside consultants, managing effective facility spending and negotiating with vendors for improved pricing.

Interest Expense

Interest expense was $0.3 million and $0.1 million for the three months ended June 30, 2023 and 2022, respectively.

We expect our interest expense will increase as a result of our recent issuance of senior secured convertible notes (for further information, see "—Liquidity and Capital Resources" and Note 17, *Subsequent Events*, in the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report).

Gain (loss) on Fair Value of Warrants

The change in fair value of warrants resulted in a gain of $0.8 million and $23.7 million for the three months ended June 30, 2023 and 2022, respectively, and was related to the non-cash fair value change of the warrant liabilities driven by the change in our stock price.

Gain (loss) on Fair value of Contingent Earnout Liabilities

The change in fair value of the contingent earnout liability was a gain of $1.8 million and $130.2 million for the three months ended June 30, 2023 and 2022, respectively, and was related to the non-cash fair value change of the contingent earnout liabilities driven by the change in our stock price.

Other Income, Net

Other income, net was $0.2 million and $0.4 million for the three months ended June 30, 2023 and 2022, respectively.

Income Taxes

No provision for federal and state income taxes was recorded for both the three months ended June 30, 2023 and 2022 due to projected losses, and we maintained a full valuation allowance on the deferred tax assets as of June 30, 2023 and December 31, 2022.

We will continue to review our conclusions about the appropriate amount of the valuation allowance on a quarterly basis. If we were to generate profits in 2023 and beyond, the U.S. valuation allowance position could be reversed in the foreseeable future. We expect a benefit to be recorded in the period the valuation allowance reversal is recorded and a higher effective tax rate in periods following the valuation allowance reversal.

Results of Operations

Comparison of the Six Months Ended June 30, 2023 and 2022:

The following table summarizes our historical results of operations for the periods presented:

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Change	%
	(In thousands, except for percentages)			
Revenue				
3D Printer	$ 47,765	$ 27,799	$ 19,966	71.8 %
Recurring payment	610	1,859	(1,249)	(67.2)%
Support services	3,573	2,204	1,369	62.1 %
Total Revenue	51,948	31,862	20,086	63.0 %
Cost of revenue				
3D Printer	41,702	26,112	15,590	59.7 %
Recurring payment	782	1,403	(621)	(44.3)%
Support services	3,559	3,100	459	14.8 %
Total cost of revenue	46,043	30,615	15,428	50.4 %
Gross profit	5,905	1,247	4,658	373.5 %
Operating expenses				
Research and development	23,001	25,880	(2,879)	(11.1)%
Selling and marketing	12,282	12,232	50	0.4 %
General and administrative	20,451	17,549	2,902	16.5 %
Total operating expenses	55,734	55,661	73	0.1 %
Loss from operations	(49,829)	(54,414)	4,585	(8.4)%
Interest expense	(564)	(233)	(331)	142.1 %
Gain (loss) on fair value of warrants	(1,725)	17,651	(19,376)	(109.8)%
Gain (loss) on fair value of contingent earnout liabilities	(7,810)	98,995	(106,805)	(107.9)%
Other income, net	529	609	(80)	(13.1)%
Income (loss) before provision for income taxes	(59,399)	62,608	(122,007)	(194.9)%
Provision for income taxes	—	—	—	— %
Net income (loss)	$ (59,399)	$ 62,608	$ (122,007)	(194.9)%

Revenue

The following table presents the revenue disaggregated by products and service type, as well as the percentage of total revenue.

	Six Months Ended June 30,				Change	%
	2023		2022			
	(In thousands, except for percentages)					
3D Printer sales	$ 47,765	91.9 %	$ 27,799	87.3 %	$ 19,966	71.8 %
Recurring payment	610	1.2 %	1,859	5.8 %	(1,249)	(67.2)%
Support services	3,573	6.9 %	2,204	6.9 %	1,369	62.1 %
Total Revenue	$ 51,948	100.0 %	$ 31,862	100.0 %	$ 20,086	63.0 %

Total revenue for the six months ended June 30, 2023 and 2022 was $51.9 million and $31.9 million, respectively, an increase of $20.1 million, or 63.0%.

3D Printer sales were $47.8 million and $27.8 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $20.0 million. The improvement in revenue was due to a mix of higher production volumes and change in our product mix toward more Sapphire XC and Sapphire XC 1MZ systems compared to Sapphire systems, and fewer launch customer and early reservation shipments at discounted prices resulting in an increase in the average selling price. The 3D Printer sales included parts and consumables revenue.

Recurring Payment, structured as an operating lease, was $0.6 million and $1.9 million for the six months ended June 30, 2023 and 2022, respectively. The decrease was primarily attributable to a decrease in the number of 3D Printer systems in service generating Recurring Payment revenue as of June 30, 2023, compared to the number of 3D Printer systems in service as of June 30, 2022. In addition, one system that was originally executed through a Recurring Payment transaction was subsequently purchased through a 3D Printer sale transaction, and two systems executed through a Recurring Payment transaction were returned in the six months ended June 30, 2023.

Our Support Service revenue was $3.6 million and $2.2 million for the six months ended June 30, 2023 and 2022, respectively. The increase was primarily attributable to a significant increase in the number of 3D Printer systems in service as of June 30, 2023, compared to the number of 3D Printers in service as of June 30, 2022.

Cost of Revenue

The following table presents the Cost of Revenue disaggregated by product and service type, as well as the percentage of total cost of revenue.

	Six Months Ended June 30,				Change	%
	2023		2022			
	(In thousands, except for percentages)					
Cost of Revenue						
Cost of 3D Printers	$ 41,702	90.6 %	$ 26,112	85.3 %	$ 15,590	59.7 %
Cost of Recurring Payment	782	1.7 %	1,403	4.6 %	(621)	(44.3)%
Cost of Support Services	3,559	7.7 %	3,100	10.1 %	459	14.8 %
Total Cost of Revenue	$ 46,043	100.0 %	$ 30,615	100.0 %	$ 15,428	50.4 %

Total cost of revenue for the six months ended June 30, 2023 and 2022 was $46.0 million and $30.6 million, respectively, an increase of $15.4 million, or 50.4%.

Cost of 3D Printers was $41.7 million and $26.1 million for the six months ended June 30, 2023 and 2022, respectively. The increase of $15.6 million was due to an increase in the number of 3D Printers sold in the six months ended June 30, 2023, compared to the number of 3D Printers sold in the six months ended June 30, 2022. In addition, the change in our product mix towards more Sapphire XC and Sapphire XC 1MZ systems, which have a higher total per system cost compared to the Sapphire, has increased the cost of 3D Printers for the six months ended June 30, 2023 compared to 2022.

Cost of Recurring Payment was $0.8 million and $1.4 million for the six months ended June 30, 2023 and 2022, respectively. This decrease of $0.6 million was due to a decrease in the number of 3D Printer systems in service incurring costs related to Recurring Payment revenue as of June 30, 2023, compared to June 30, 2022.

Cost of Support Services was $3.6 million and $3.1 million for the six months ended June 30, 2023 and 2022, respectively. This increase of $0.5 million in Cost of Support Services was primarily attributable to the costs for preventative maintenance, costs incurred to enhance system reliability performance, and field service engineering labor costs due to more 3D Printers in service as of June 30, 2023, compared to June 30, 2022. However, field service engineering support costs related to the ramp of the Sapphire XC, Sapphire 1MZ and Sapphire XC 1MZ systems in the field, have been offset by the benefits of preventative maintenance we performed and enhancements we made to system reliability performance.

Cost of revenue as a percentage of revenue was 88.6% and 96.1% for the six months ended June 30, 2023 and 2022, respectively. The decrease in the cost of revenue as a percentage was primarily due to a per system reduction in material costs for our Sapphire family of systems and improved manufacturing efficiency offset by the change in our product mix towards more Sapphire XC and Sapphire XC 1MZ systems compared to Sapphire systems.

Gross Profit and Gross Margin

Total gross profit (loss) was $5.9 million and $1.2 million for the six months ended June 30, 2023 and 2022, respectively. As a percentage of revenue, the gross margin was 11.4% and 3.9% for the six months ended June 30, 2023 and 2022, respectively. The higher gross profit for the six months ended June 30, 2023 was primarily attributable to higher average selling prices for our Sapphire family of systems, and improved manufacturing efficiencies, during the six months ended June 30, 2023, as compared to the six months ended June 30, 2022.

Research and Development Expenses

Research and development expenses were $23.0 million and $25.9 million for the six months ended June 30, 2023 and 2022, respectively, a decrease of $2.9 million. The decrease in research and development expenses in 2023 was driven by a $5.3 million decrease in materials cost, offset by an increase of $0.6 million for additional headcount, salaries and employee-related expenses, a $0.9 million increase in stock-based compensation, and a $0.9 million increase in other operating expenses.

Selling and Marketing Expenses

Selling and marketing expenses were $12.3 million and $12.2 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $0.1 million. This slight increase was attributable to a $0.8 million increase in stock-based compensation, and a $0.2 million increase in marketing initiatives, trade shows and branding expenses, offset by a $0.9 million decrease in European marketing costs.

General and Administrative Expenses

General and administrative expenses were $20.5 million and $17.5 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $3.0 million. The increase was attributable to a $0.5 million increase for additional headcount, salaries and employee-related benefits, a $0.5 million increase in facilities expenses, a $0.9 million increase in public company-related expenses in advisory, legal and accounting fees and insurance, and a $1.1 million increase in stock-based compensation.

Interest Expense

Interest expense was $0.6 million and $0.2 million for the six months ended June 30, 2023 and 2022, respectively.

Gain (loss) on Fair Value of Warrants

The change in fair value of warrants resulted in a loss of $1.7 million and a gain of $17.7 million for the six months ended June 30, 2023 and 2022, respectively, and was related to the non-cash fair value change of the warrant liabilities driven by the change in our stock price.

Gain (loss) on Fair value of Contingent Earnout Liabilities

The change in fair value of the contingent earnout liability was a loss of $7.8 million and a gain of $99.0 million for the six months ended June 30, 2023 and 2022, respectively, and was related to the non-cash fair value change of the contingent earnout liabilities driven by the change in our stock price.

Other Income, Net

Other income, net was $0.5 million and $0.6 million for the six months ended June 30, 2023 and 2022, respectively.

Income Taxes

No provision for federal and state income taxes was recorded for both the six months ended June 30, 2023 and 2022 due to projected losses, and we maintained a full valuation allowance on the deferred tax assets as of June 30, 2023 and December 31, 2022.

Liquidity and Capital Resources

As of June 30, 2023, we had raised net proceeds of $438.8 million, comprised of approximately $15.6 million from the ATM Offering (described below), $278.3 million from the Merger and related private placement of shares of our common stock (the “PIPE Financing”), which closed on September 29, 2021, and $150.0 million from the issuance of redeemable convertible preferred stock (series A to series D), third-party financing and convertible notes. We have incurred net income (loss) of $(59.4) million and $62.6 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and December 31, 2022, we had $47.3 million and $80.2 million in cash, cash equivalents and short-term investments, respectively, and an accumulated deficit of $279.2 million and $219.8 million, respectively. Our business requires substantial amounts of cash for operating activities, including salaries and wages paid to our employees, component and sub-assembly purchases, general and administrative expenses, and others.

On August 10, 2023, we entered into a securities purchase agreement (the “Securities Purchase Agreement”) with certain affiliated institutional investors (collectively, the “Investor”) pursuant to which we agreed to issue and sell, in a registered public offing by us directly to the Investor (the “Offering”), up to $105 million aggregate principal amount of our senior secured convertible notes (the “Notes”). On August 14, 2023, we issued $70 million aggregate principal amount of Notes (the “Initial Notes”) to the Investor for approximately $66 million in net proceeds, and used approximately $22 million of the net proceeds to repay in full indebtedness outstanding under our third amended and restated loan and security agreement, as amended. For more information regarding the Offering and the terms of the Notes, see Note 17. Subsequent Events, in the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

Our purchase commitments per terms and conditions with suppliers and vendors are cancellable in whole or in part prior to shipment. Non-cancellable purchase commitments (purchase orders) of $39.5 million for parts and assemblies are due upon receipt and will primarily be delivered in the second half of 2023. If inventory is shipped, we will accrue a liability under accrued expenses. We have no other commitment and contingencies, except for the operating leases. See Note 8, Leases, in the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report for further discussion.

We may require additional funds to respond to business challenges and opportunities, including the need to provide working capital, develop new features or enhance our products, expand our manufacturing capacity, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, subject to our compliance with the covenants in the Notes, we may need to engage in equity or debt financings to secure additional funds if our existing sources of cash and any funds generated from operations do not provide us with sufficient capital, including seeking additional capital from public or private offerings of our equity or debt securities, electing to repay, restructure or refinance our existing indebtedness, or electing to borrow additional amounts under new credit lines or from other sources. We may also seek to raise additional capital, including from offerings of our equity or debt securities, on an opportunistic basis when we believe there are suitable opportunities for doing so. For example, on November 14, 2022, we filed with the SEC a shelf registration statement (the "Shelf Registration Statement") that was subsequently declared effective on November 21, 2022 and permits us to sell from time-to-time additional shares of our common stock or other securities in one or more offerings in amounts, at prices and on the terms that we will determine at the time of offering for aggregate gross sale proceeds of up to $300.0 million, of which we may offer and sell up to $40.0 million shares of our common stock from time to time pursuant to an "at-the-market" offering (the "ATM Offering") sales agreement (the "ATM Sales Agreement") we entered into in January 2023 with Needham & Company, LLC ("Needham"), as agent, subject to the terms and conditions described in the ATM Sales Agreement and SEC rules and regulations. Furthermore, the Notes require us, on or before December 31, 2023, to establish a new "at-the-market" offering program with aggregate available, accessible and unused capacity to generate gross proceeds to us of at least $75,000,000 as of December 31, 2023.

We believe that our cash and cash equivalents on hand, together with cash we expect to generate from our future operations, will be sufficient to meet our working capital and capital expenditure requirements for a period of at least twelve months from the date of this Quarterly Report.

However, our ability to meet our cash requirements depends on, among other things, our operating performance, competitive and industry developments, and financial market conditions, all of which are significantly affected by business, financial, economic, political and other factors, many of which we may not be able to control or influence. To the extent that our actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

Debt Facilities

As of June 30, 2023, our banking arrangements included our third amended and restated loan and security agreement originally entered into with Silicon Valley Bank ("SVB"). For more information, see Note 9, *Long-Term Debt* in the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022.

As described above, on August 14, 2023, we used approximately $22 million of the net proceeds from the Offering of the Initial Notes to repay all outstanding obligations under our third amended and restated loan and security agreement, as amended. With the payoff of the debt, our third amended and restated loan and security agreement, as amended, was terminated and is no longer available to us. Following the payoff, as of August 14, 2023, we have outstanding $70.0 million of Notes. See Note 17. *Subsequent Events*, in the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report for further information.

Revolving Credit Line — In August 2021, we drew on the working capital revolver line of credit in the amount of $3.0 million, with a variable interest rate of the greater of 5.75% or Prime plus 2.50% and a term of 10 months. in We drew an additional $5.0 million under the revolver in February 2023, $5.0 million in April 2023, and $4.0 million in June 2023, with a variable interest rate of the greater of 5.50% or Prime plus 0.75% and terms of 23, 21 and 19 months, respectively, which were all due on December 31, 2024.

The outstanding balance on the revolver as of June 30, 2023 was $17.0 million. We do not hedge our exposure to changes in interest rates. A 10% change in interest rates would not have a material impact on annualized interest expense.

Equipment Loans Secured by Leased Equipment — On July 25, 2022, we established an up to $15.0 million secured equipment loan facility. The equipment loan secured by leased equipment has a variable interest rate of the greater of 5.50% or Prime plus 0.75%, and terms of three years. As of June 30, 2023, we had $5.5 million outstanding on the equipment loan. We do not hedge our exposure to changes in interest rates. A 10% change in interest rates would not have a material impact on annualized interest expense.

For more information, see Note 9, *Long-Term Debt*, in the notes to the condensed consolidated financial statements in this Quarterly Report.

Cash Flow Summary

The following table summarizes our cash flows for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,		
	2023	**2022**	**Change**
	(In thousands)		
Net cash used in operating activities	$ (58,778)	$ (68,793)	$ 10,015
Net cash (used in) provided by investing activities	$ 25,600	$ (94,796)	$ 120,396
Net cash (used in) provided by financing activities	$ 30,074	$ (497)	$ 30,571

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2023 was $58.8 million, consisting primarily of a net loss of $59.4 million, non-cash loss of $25.3 million described below, and a decrease in net operating assets of $24.7 million. The net operating assets decrease was comprised of a decrease from accounts payable of $1.7 million, a decrease from contract liabilities of $9.4 million, a decrease from other net operating assets of $9.4 million, a decrease from accounts receivable of $5.1 million due to timing of customer payments and a decrease in accrued expenses and other current liabilities of $6.2 million, offset by an increase from inventories of $3.5 million for Sapphire XC, Sapphire 1MZ and Sapphire XC 1MZ system production and an increase from prepaid expenses of $3.6 million related to insurance and vendor prepayments. The noncash loss of $25.3 million consisted of the loss on fair value of warrants of $1.7 million, the loss on fair value of contingent earnout liabilities of $7.8 million, depreciation and amortization of $3.0 million and stock-based compensation expense of $12.8 million.

Net cash used in operating activities for the six months ended June 30, 2022 was $68.8 million, consisting primarily of a net income of $62.6 million and a decrease in net operating assets of $26.8 million, primarily comprised of increases in prepaid expenses of $7.0 million related to insurance and vendor prepayments, increases in accounts receivable of $1.0 million due to timing of customer payments, increases in accrued expenses and other current liabilities of $6.0 million, and increases in other net operating assets of $0.5 million, offset by decreases in inventories of $34.8 million for Sapphire and Sapphire XC system production, decreases in accounts payable of $0.4 million, and decreases in contract liabilities of $6.1 million. The noncash charges of $104.6 million primarily consisted of the change in fair value related to the warrants of $17.7 million, change in fair value related to the contingent earnout liabilities of $99.0 million and depreciation and amortization and stock-based compensation expense.

We expect our cash used in operating activities to decrease driven by working capital requirements stabilizing and operating expenses decreasing due to cost reduction initiatives for the remainder of 2023.

Investing Activities

Net cash provided by investing activities during the six months ended June 30, 2023 was $25.6 million, consisting of property and equipment purchases of $0.7 million and production of equipment for lease to customers of $3.7 million, partially offset by maturities of available-for-sale investment securities of $30.0 million.

Net cash used in investing activities during the six months ended June 30, 2022 was $94.8 million, consisting of property and equipment purchases of $8.6 million, production of equipment for lease to customers of $2.6 million and purchases of available-for-sale investments of $87.7 million, partially offset by maturities of available-for-sale investment securities of $4.0 million.

We expect our capital expenditures, to decrease in the remainder of 2023 as we intend to limit the number of 3D Printer systems as equipment for lease to customers and have completed the build out of our manufacturing facility.

Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2023 was $30.1 million, consisting of proceeds of $15.6 million from the ATM Offering, net of issuance costs, $14.0 million drawn from our revolver facility, $1.6 million drawn from out secured equipment loan facility and $0.4 million from the issuance of common stock upon exercise of stock options, partially offset by $1.5 million in repayment of equipment loans.

Net cash used in financing activities during the six months ended June 30, 2022 was $0.5 million, consisting of repayment of equipment loans of $1.1 million, partially offset by $0.6 million of proceeds from the issuance of common stock upon exercise of stock options.

We expect cash provided by financing activities to increase by issuing new equity or incurring new debt to continue operations, subject to our compliance with the covenants in the Notes. Our future cash requirements and the adequacy of available funds will depend on many factors, including our operating performance, competitive and industry developments, and financial market conditions.

Off-Balance Sheet Arrangements

As of June 30, 2023 and December 31, 2022, we did not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on Velo3D's condensed consolidated financial statements, see Note 2, *Summary of Significant Accounting Policies*, in the notes to the condensed consolidated financial statements in this Quarterly Report.

Implications of Being an Emerging Growth Company

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable. We are an "emerging growth company" as defined in Section 2(A) of the Securities Act and have elected to take advantage of the benefits of this extended transition period.

We will elect to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public business entities and nonpublic business entities until the earlier of the date we (a) are no longer an emerging growth company or (b) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. This may make it difficult or impossible to compare our financial results with the financial results of another public company that is either not an emerging growth company or an emerging growth company that has chosen not to take advantage of the extended transition period exemptions because of the potential differences in accounting standards used. Please refer to Note 2. *Summary of Significant Accounting Policies,* of the condensed consolidated financial statements included elsewhere in this Quarterly Report for the recent accounting pronouncements adopted and the recent accounting pronouncements not yet adopted for the six months ended June 30, 2023 and 2022.

We will remain an emerging growth company under the JOBS Act until the earliest of (a) December 31, 2025, (b) the last date of our fiscal year in which we have total annual gross revenue of at least $1.235 billion, (c) the last date of our fiscal year in which we are deemed to be a "large accelerated filer" under the rules of the SEC or (d) the date on which we have issued more than $1.0 billion in nonconvertible debt securities during the previous three years.

Implications of Being a Smaller Reporting Company

We are a "smaller reporting company" as defined in Item 10(f)(1) of Regulation S-K. Smaller reporting companies may take advantage of certain reduced disclosure obligations, including, among other things, providing only two years of audited consolidated financial statements.

We may continue to be a smaller reporting company even after we are no longer an emerging growth company. We will remain a smaller reporting company and may take advantage of certain scaled disclosures available to smaller reporting companies until the last day of the fiscal year in which (a) the market value of our voting and nonvoting common stock held by non-affiliates equals or exceeds $250.0 million measured on the last business day of that year's second fiscal quarter and (b) our annual revenue equals or exceeds $100.0 million during the most recently completed fiscal year or our voting and nonvoting common stock held by non-affiliates equals or exceeds $700.0 million measured on the last business day of that year's second fiscal quarter.

Critical Accounting Policies and Significant Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. We evaluated the development and selection of our critical accounting policies and estimates and believe that the following involve a higher degree of judgement or complexity and are most significant to reporting our results of operations and financial position and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgements used in the preparation of our condensed consolidated financial statements. Actual results could differ materially from those estimates and assumptions, and those differences could be material to our condensed consolidated financial statements. We re-evaluate our estimates on an ongoing basis. For more information, see Note 2, *Summary of Significant Accounting Policies,* included in the notes to the condensed consolidated financial statements in this Quarterly Report, and *Critical Accounting Policies and Significant Estimates* in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined in Rule 12b-2 under the Exchange Act. As a result, pursuant to Item 305(e) of Regulation S-K, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, with participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of June 30, 2023. Based upon this evaluation our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2023, our disclosure controls and procedures were not effective due to the material weaknesses in internal control over financial reporting described below.

Material Weaknesses in Internal Control over Financial Reporting

As described Part II, Item 9A. "Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2022, we identified material weaknesses in our internal control over financial reporting. These material weaknesses have not been remediated as of June 30, 2023. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The material weaknesses are as follows:

- We did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we did not maintain a sufficient complement of personnel with an appropriate degree of internal controls and accounting knowledge, experience, and training commensurate with our accounting and financial reporting requirements. Additionally, the lack of a sufficient complement of personnel resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of our financial reporting objectives, as demonstrated by, among other things, insufficient segregation of duties in our finance and accounting functions. This material weakness contributed to the following additional material weaknesses.

- We did not design and maintain effective controls over the segregation of duties related to journal entries and account reconciliations. Specifically, certain personnel have the ability to both (i) create and post journal entries within our general ledger system and (ii) prepare and review account reconciliations.

- We did not design and maintain effective controls over inventory. Specifically, we did not design and maintain effective controls over the existence, accuracy and completeness of inventory, the completeness and presentation of accrued inventory purchases, the completeness and accuracy of related expenses.

- We did not design and maintain effective controls over the presentation of contract assets and liabilities.

These material weaknesses resulted in adjustments to accounts receivable, inventory, other current assets, current and non-current contract liabilities, accrued expenses and other current liabilities, which were recorded prior to the issuance of the consolidated financial statements as of and for the years ended December 31, 2019, 2020 and

2021 and as of and for the interim periods ended September 30, 2021 and December 31, 2021; adjustments to inventory, cost of revenue, research and development expense, contract assets and contract liabilities as of and for the year ended December 31, 2022; and adjustments to current and non-current contract liabilities as of and for the interim period ended June 30, 2022. Additionally, these material weaknesses could result in a misstatement of substantially all of our accounts or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

- We did not design and maintain effective controls over certain information technology ("*IT*") general controls for information systems that are relevant to the preparation of our consolidated financial statements. Specifically, we did not design and maintain effective:
    - user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate company personnel; and
    - program change management controls to ensure that information technology program and data changes affecting certain financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately.

These IT deficiencies did not result in a misstatement to the consolidated financial statements, however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all consolidated financial statement accounts and disclosures that would not be prevented or detected. Accordingly, management has determined these deficiencies in the aggregate constitute a material weakness.

Remediation Measures for Remaining Material Weaknesses in Internal Control over Financial Reporting

We have taken measures to remediate the material weaknesses remaining as of June 30, 2023, including the following: hired additional accounting and IT personnel to bolster our reporting, technical accounting and IT capabilities; provided ongoing training for our personnel on accounting, financial reporting and internal control over financial reporting; engaged a third-party to assist in designing and implementing controls, including controls related to segregation of duties and IT general controls; designing and implementing controls to formalize roles and review responsibilities to align with our team's skills and experience and designing and implementing controls over segregation of duties; designing and implementing controls over the preparation and review of journal entries and account reconciliations, and designing and implementing controls over the existence, accuracy and completeness of inventory, the completeness and presentation of accrued inventory purchases, the completeness and accuracy of related expenses, and controls over the presentation of contract assets and liabilities; and designing and implementing IT general controls, including controls over the review and update of user access rights and privileges and program change management controls.

We are making progress toward the effectiveness of our internal control over financial reporting and disclosure controls and procedures. The measures that we are taking are subject to continued testing, ongoing senior management review, as well as audit committee oversight. We will not be able to conclude whether the measures we are taking will fully remediate these material weaknesses in our internal control over financial reporting until we have completed our remediation efforts and subsequent evaluation of their effectiveness. We may also conclude that additional measures may be required to remediate the material weaknesses in our internal control over financial reporting, which may necessitate additional implementation and evaluation time. We will continue to assess the effectiveness of our internal control over financial reporting and take steps to remediate the known material weaknesses expeditiously.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in various disputes and litigation matters that arise in the ordinary course of business. We are currently not a party to any material legal proceedings.

Item 1A. RISK FACTORS

Investing in our securities involves risks. You should consider carefully the risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2022 in the section titled Part I, Item 1A. "Risk Factors, together with all of the other information in this Quarterly Report, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report, before deciding whether to purchase any of our securities. Our business, results of operations, financial condition, and prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of these risks actually occur, our business, results of operations, financial condition, and prospects could be materially and adversely affected

Except for as set forth below, there have been no material changes in the risk factors described in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022.

Risks Related to Our Financial Position and Need for Additional Capital

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges and opportunities, including the need to provide working capital, develop new features or enhance our products, expand our manufacturing capacity, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, subject to our compliance with the covenants in the Notes, we may need to engage in equity or debt financings to secure additional funds if our existing sources of cash and any funds generated from operations do not provide us with sufficient capital, including seeking additional capital from public or private offerings of our equity or debt securities, electing to repay, restructure or refinance our existing indebtedness, or electing to borrow additional amounts under new credit lines or from other sources. We may also seek to raise additional capital, including from offerings of our equity or debt securities on an opportunistic basis when we believe there are suitable opportunities for doing so. For example, on November 14, 2022, we filed with the SEC a shelf registration statement (the "Shelf Registration Statement") that was subsequently declared effective on November 21, 2022 and permits us to sell from time-to-time additional shares of our common stock or other securities in one or more offerings in amounts, at prices and on the terms that we will determine at the time of offering for aggregate gross sale proceeds of up to $300.0 million, of which we may offer and sell up to $40.0 million shares of our common stock from time to time pursuant to an "at-the-market" offering sales agreement (the "ATM Sales Agreement") we entered into in February 2023 with Needham, as agent, subject to the terms and conditions described in the ATM Sales Agreement and SEC rules and regulations. Furthermore, the Notes require us, on or before December 31, 2023, to establish a new "at-the-market" offering program with aggregate available, accessible and unused capacity to generate gross proceeds to us of at least $75,000,000 as of December 31, 2023. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. Our ability to raise additional capital when needed may be adversely affected by external factors beyond our control, including changes in the political climate, geopolitical actions, changes in market interest rates or foreign exchange rates, market volatility in the trading prices for our common stock and other technology companies, a recession, depression, high inflation or other sustained adverse market event, and the ongoing COVID-19 pandemic. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges and opportunities could be significantly impaired, and our business may be adversely affected.

Risks Related to Our Business and Industry

Market conditions, economic uncertainty or downturns could adversely affect our business and operating results.

In recent years, the United States and other significant markets have experienced cyclical downturns and worldwide economic conditions remain uncertain, including as a result of the ongoing COVID-19 pandemic, supply chain disruptions, the Ukraine-Russia conflict, instability in the U.S. and global banking systems, rising fuel prices, increasing interest rates or foreign exchange rates and high inflation and the possibility of a recession. Economic uncertainty and associated macroeconomic conditions make it extremely difficult for our customers and us to accurately forecast and plan future business activities, and could cause our customers to slow spending on our products, which could delay and lengthen sales cycles.

A significant downturn in economic activity, or general spending on additive manufacturing systems, may cause our current or potential customers to react by reducing their capital and operating expenditures in general or by specifically reducing their spending on additive manufacturing systems and related technologies. Moreover, competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers.

We cannot predict the timing, strength, or duration of any economic slowdown or any subsequent recovery generally, or in any industry. If the conditions in the general economy and the markets in which we operate worsen from present levels, our business, financial condition, and operating results could be adversely affected.

For example, instability in the U.S. banking system has resulted in the failure of several U.S. banks, including the closure of SVB by banking regulators in March 2023. If other banks and financial institutions enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, our ability to access our existing cash, cash equivalents and investments or to access financing may be threatened, which could have a material adverse effect on our business and financial condition.

Risks Related to Our Notes

The terms of the Notes restrict our current and future operations. Upon an event of default, we may not be able to make any accelerated payments under the Notes or our other permitted indebtedness.

On August 10, 2023, we entered into a securities purchase agreement with certain affiliated institutional investors for the purchase and sale of up to $105 million in aggregate principal amount of our senior secured convertible notes. We issued $70 million in aggregate principal amount of the Initial Notes on August 14, 2023 (the "Initial Closing"). In addition, we have granted the investors the right to purchase up to an additional $35 million in aggregate principal amount of the Notes (the "Additional Notes") so long as the notice to exercise such option is provided no later than the first anniversary of the Initial Closing.

The Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest. In particular, the Notes contain customary affirmative and negative covenants (including covenants that limit our ability to incur debt, make investments, transfer assets, engage in certain transactions with affiliates and merge with other companies, in each case, other than those permitted by the Notes) and events of default. Furthermore, we are required to maintain a minimum of $30 million of unrestricted cash and cash equivalents and to maintain minimum levels of quarterly revenue through the quarter ended June 30, 2026. Our ability to meet the financial tests under the Notes can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under the Notes or under the agreements governing any of our other permitted indebtedness could result in an event of default under the applicable indebtedness. Such a default may allow holders of the Notes or the holders or lenders of our other permitted indebtedness, as applicable, to accelerate the related indebtedness, which may result in the acceleration of other indebtedness to which a cross-acceleration or cross-default provision applies. In addition, such lenders or holders could terminate commitments to lend money, if any. Furthermore, if we were unable to repay the Notes or other permitted indebtedness then due and payable, secured lenders could proceed against the assets, if any, securing such indebtedness. In the event such lenders or holders accelerate the repayment of the Notes or our other permitted borrowings, we may not have sufficient assets to repay that indebtedness. A default would also likely significantly diminish the market price of our common stock.

Furthermore, as a result of these restrictions, we may be limited in how we conduct and grow our business, or unable to compete effectively or to take advantage of new business opportunities. These restrictions may affect our ability to grow in accordance with our strategy.

Servicing the Notes requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our obligations under the Notes or our other permitted indebtedness.

Our ability to make scheduled payments of principal or to pay interest on or to refinance the Notes or our other permitted indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors, some of which are beyond our control. After giving effect to the issuance of the Initial Notes and the repayment of our indebtedness to Silicon Valley Bank, as of August 14, 2023, we have outstanding $70.0 million of Initial Notes, and the terms of the Initial Notes require us to pay approximately $80.5 million to repay the full principal amount of the Initial Notes at maturity or any other time. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under the Notes or our other permitted indebtedness. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. We may not prepay the Notes without the consent of the holders, and our ability to refinance the Notes or our other permitted indebtedness will also depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the Notes or our other indebtedness.

Conversion of the Notes may dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock.

The conversion of the Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of the Notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

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

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

The disclosure under Part II, Other Information, Item 5. Other Information in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023, filed with the SEC on May 10, 2023, regarding our entry into a letter agreement on April 7, 2023 with Silicon Valley Bank, a division of First-Citizens Bank & Trust Company, is incorporated by reference herein.

Item 6. Exhibits

Exhibit Number	Description
10.1	Letter Agreement between Silicon Valley Bank and Velo3D, Inc., dated April 7, 2023, which was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023
10.2	Fifth Loan Modification Agreement between Silicon Valley Bank and Velo3D, Inc., dated May 5, 2023, which was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2023
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or rule 15d-14(a)
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or rule 15d-14(a)
32.1	Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350*
32.2	Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350*
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* This certification is not deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Campbell, State of California, on the 15th day of August, 2023.

VELO3D, INC.

Date: August 15, 2023	By:	/s/ William McCombe
	Name:	William McCombe
	Title:	*Chief Financial Officer and Principal Financial Officer*

Exhibit 31.1

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Benyamin Buller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Velo3D, Inc.;

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2023

By: /s/ Benyamin Buller
Benyamin Buller
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William McCombe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Velo3D, Inc.;

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2023

By: /s/ William McCombe
William McCombe
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Benyamin Buller, Chief Executive Officer of Velo3D, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2023 (the “Report”), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: August 15, 2023	By:	/s/ Benyamin Buller
		Benyamin Buller
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, William McCombe, Chief Financial Officer of Velo3D, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2023 (the “Report”), as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: August 15, 2023	By:	/s/ William McCombe
		William McCombe
		Chief Financial Officer
		(Principal Financial Officer)