

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, 2020

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 001-38462

NLIGHT, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

91-2066376

(I.R.S. Employer
Identification Number)

5408 NE 88th Street, Building E
Vancouver, Washington 98665

(Address of principal executive office, including zip code)

(360) 566-4460

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of Exchange on which Registered
Common Stock, par value \$0.0001 per share	LASR	The Nasdaq Stock Market LLC

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 Exchange Act). Yes ☐ No ☒

As of August 3, 2020, the Registrant had 38,873,902 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED INTERIM FINANCIAL STATEMENTS

nLIGHT, Inc. Consolidated Balance Sheets (In thousands) (Unaudited)

	As of	
	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 120,899	\$ 117,252
Accounts receivable, net of allowances of \$309 and \$269	23,891	27,126
Inventory	50,611	46,131
Prepaid expenses and other current assets	9,883	8,084
Total current assets	205,284	198,593
Property, plant and equipment, net of accumulated depreciation of \$61,789 and \$58,633	41,349	27,747
Lease right-of-use assets	11,080	—
Intangible assets, net of accumulated amortization of \$4,937 and \$3,150	8,849	10,006
Goodwill	9,972	9,872
Other assets, net	4,840	3,748
Total assets	\$ 281,374	\$ 249,966
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 20,343	\$ 12,700
Accrued liabilities	12,179	11,605
Deferred revenues	2,191	679
Lease liabilities	2,480	—
Current portion of long-term debt	5	51
Total current liabilities	37,198	25,035
Non-current income taxes payable	6,656	6,429
Long-term lease liabilities	8,896	—
Long-term debt	15,000	—
Other long-term liabilities	2,299	1,894
Total liabilities	70,049	33,358
Stockholders' equity:		
Common stock - \$0.0001 par value; 190,000 shares authorized, 38,850 shares issued and outstanding at June 30, 2020 and 38,084 shares issued and outstanding at December 31, 2019	15	15
Additional paid-in capital	345,917	336,732
Accumulated other comprehensive loss	(2,848)	(2,685)
Accumulated deficit	(131,759)	(117,454)
Total stockholders' equity	211,325	216,608
Total liabilities and stockholders' equity	\$ 281,374	\$ 249,966

See accompanying notes to consolidated financial statements.

nLIGHT, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue:				
Products	\$ 45,104	\$ 48,048	\$ 82,034	\$ 89,909
Development	7,034	—	13,319	—
Total revenue	52,138	48,048	95,353	89,909
Cost of revenue:				
Products	32,597	32,177	60,497	60,524
Development	6,485	—	12,299	—
Total cost of revenue	39,082	32,177	72,796	60,524
Gross profit	13,056	15,871	22,557	29,385
Operating expenses:				
Research and development	9,472	6,494	18,010	12,916
Sales, general, and administrative	9,633	8,572	17,333	16,716
Total operating expenses	19,105	15,066	35,343	29,632
Income (loss) from operations	(6,049)	805	(12,786)	(247)
Other income (expense):				
Interest income (expense), net	(65)	740	218	1,490
Other income (expense), net	(298)	(907)	(414)	(87)
Income (loss) before income taxes	(6,412)	638	(12,982)	1,156
Income tax expense	418	793	1,323	2,546
Net loss	\$ (6,830)	\$ (155)	\$ (14,305)	\$ (1,390)
Net loss per share, basic	\$ (0.18)	\$ 0.00	\$ (0.38)	\$ (0.04)
Net loss per share, diluted	\$ (0.18)	\$ 0.00	\$ (0.38)	\$ (0.04)
Shares used in per share calculations:				
Basic	38,177	37,065	38,003	36,880
Diluted	38,177	37,065	38,003	36,880

See accompanying notes to consolidated financial statements.

nLIGHT, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	\$ (6,830)	\$ (155)	\$ (14,305)	\$ (1,390)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	333	317	(163)	57
Comprehensive income (loss)	<u>\$ (6,497)</u>	<u>\$ 162</u>	<u>\$ (14,468)</u>	<u>\$ (1,333)</u>

See accompanying notes to consolidated financial statements.

nLIGHT, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

Three Months Ended June 30, 2020						
	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, March 31, 2020	38,473	\$ 15	\$ 341,042	\$ (3,181)	\$ (124,929)	\$ 212,947
Net loss	—	—	—	—	(6,830)	(6,830)
Issuance of common stock pursuant to exercise of stock options	145	—	299	—	—	299
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	193	—	(2,146)	—	—	(2,146)
Issuance of common stock under the Employee Stock Purchase Plan	39	—	685	—	—	685
Stock-based compensation	—	—	6,037	—	—	6,037
Cumulative translation adjustment	—	—	—	333	—	333
Balance, June 30, 2020	<u>38,850</u>	<u>\$ 15</u>	<u>\$ 345,917</u>	<u>\$ (2,848)</u>	<u>\$ (131,759)</u>	<u>\$ 211,325</u>

Six Months Ended June 30, 2020						
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2019	38,084	\$ 15	\$ 336,732	\$ (2,685)	\$ (117,454)	\$ 216,608
Net loss	—	—	—	—	(14,305)	(14,305)
Issuance of common stock pursuant to exercise of stock options	518	—	857	—	—	857
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	209	—	(2,157)	—	—	(2,157)
Issuance of common stock under the Employee Stock Purchase Plan	39	—	685	—	—	685
Stock-based compensation	—	—	9,800	—	—	9,800
Cumulative translation adjustment	—	—	—	(163)	—	(163)
Balance, June 30, 2020	<u>38,850</u>	<u>\$ 15</u>	<u>\$ 345,917</u>	<u>\$ (2,848)</u>	<u>\$ (131,759)</u>	<u>\$ 211,325</u>

	Three Months Ended June 30, 2019					
	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, March 31, 2019	36,906	\$ 15	\$ 326,870	\$ (2,417)	\$ (105,805)	\$ 218,663
Net loss	—	—	—	—	(155)	(155)
Issuance of common stock pursuant to exercise of stock options	317	—	449	—	—	449
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	399	—	(480)	—	—	(480)
Issuance of common stock under the Employee Stock Purchase Plan	43	—	762	—	—	762
Stock-based compensation	—	—	2,381	—	—	2,381
Cumulative translation adjustment	—	—	—	317	—	317
Balance, June 30, 2019	<u>37,665</u>	<u>\$ 15</u>	<u>\$ 329,982</u>	<u>\$ (2,100)</u>	<u>\$ (105,960)</u>	<u>\$ 221,937</u>

	Six Months Ended June 30, 2019					
	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2018	36,705	\$ 15	\$ 324,656	\$ (2,157)	\$ (104,731)	\$ 217,783
Cumulative effect adjustment due to adoption of ASU 2018-07	—	—	(161)	—	161	—
Net loss	—	—	—	—	(1,390)	(1,390)
Issuance of common stock pursuant to exercise of stock options	518	—	915	—	—	915
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	399	—	(480)	—	—	(480)
Issuance of common stock under the Employee Stock Purchase Plan	43	—	762	—	—	762
Stock-based compensation	—	—	4,290	—	—	4,290
Cumulative translation adjustment	—	—	—	57	—	57
Balance, June 30, 2019	<u>37,665</u>	<u>\$ 15</u>	<u>\$ 329,982</u>	<u>\$ (2,100)</u>	<u>\$ (105,960)</u>	<u>\$ 221,937</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (14,305)	\$ (1,390)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	3,614	3,205
Amortization	2,815	1,276
Reduction in carrying amount of right-of-use assets	1,425	—
Provision for losses on accounts receivable	62	33
Stock-based compensation	9,800	4,290
Loss on disposal of assets	—	5
Changes in operating assets and liabilities:		
Accounts receivable, net	3,012	(4,334)
Inventory	(4,457)	(6,987)
Prepaid expenses and other current assets	(1,801)	3,192
Other assets	(2,131)	(1,800)
Accounts payable	7,400	1,111
Accrued and other long-term liabilities	1,243	(25)
Deferred revenues	1,519	(141)
Lease liabilities	(1,428)	—
Non-current income taxes payable	234	382
Net cash provided by (used in) operating activities	7,002	(1,183)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(17,040)	(6,110)
Capitalization of patents	(628)	(806)
Net cash used in investing activities	(17,668)	(6,916)
Cash flows from financing activities:		
Proceeds from debt financing	15,000	—
Principal payments on debt and financing leases	(45)	(50)
Proceeds from employee stock plan purchases	685	762
Proceeds from stock option exercises	857	915
Tax payments related to stock award issuances	(2,157)	(480)
Net cash provided by financing activities	14,340	1,147
Effect of exchange rate changes on cash	(27)	135
Net increase (decrease) in cash and cash equivalents	3,647	(6,817)
Cash and cash equivalents, beginning of period	117,252	149,478
Cash and cash equivalents, end of period	\$ 120,899	\$ 142,661
Supplemental disclosures:		
Cash received for interest	\$ 316	\$ 1,552
Cash paid for income taxes	1,015	1,393
Accrued purchases of property, equipment and patents	993	952
Supplemental disclosure of noncash investing and financing activities:		
Right-of-use assets obtained in exchange for lease liabilities	\$ 12,408	\$ —

See accompanying notes to consolidated financial statements.

nLIGHT, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation and New Accounting Pronouncements**Basis of Presentation**

The accompanying consolidated financial statements of nLIGHT, Inc. and its wholly owned subsidiaries (Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited financial information reflects, in the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations, stockholders' equity, and cash flows for the interim periods presented. The results reported for the interim period presented are not necessarily indicative of results that may be expected for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2019 Annual Report on Form 10-K.

Reclassifications

Certain immaterial reclassifications were made to the prior period financial statements to conform to the current period presentation.

Critical Accounting Policies

Other than the adoption of new lease accounting standards as described in Note 13, our critical accounting policies have not materially changed during the six months ended June 30, 2020 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

New Accounting Pronouncements**ASU 2016-02, ASU 2018-10, ASU 2018-11 and ASU 2019-01**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, in February 2016. ASU 2016-02 requires the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet for virtually all leases, other than leases that meet the definition of short-term. ASU 2016-02 was amended in July 2018, March 2019 and February 2020. The Company adopted ASU 2016-02, as amended, on January 1, 2020 using the modified transition approach, resulting in the recognition of operating lease ROU assets and lease liabilities of \$7.6 million and \$7.9 million, respectively. Refer to Note 13 for additional information.

ASU 2016-13, ASU 2018-19, ASU 2019-04, ASU 2019-05 and ASU 2020-03

The FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in June 2016. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For assets measured at amortized cost, the new standard requires that the income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 was amended in November 2018, April 2019 and March 2020. ASU 2016-13, as amended, is effective for annual reporting periods of emerging growth companies beginning after December 15, 2020, including interim periods within those fiscal years. An entity will apply the new standard, as amended, using a modified-retrospective approach and record a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating the impact on its consolidated financial statements and cannot reasonably estimate the impact on its financial statements at this time.

ASU 2020-04

FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, in March 2020. ASU 2020-04 provides optional practical expedients and exceptions for applying U.S. GAAP to contracts and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for all entities for the period March 12, 2020 through December 31, 2022, and will not apply to contract modifications made after December 31, 2022. If elected, the optional expedients for contract modifications must be applied consistently for all eligible contracts or eligible transactions. Adoption of the ASU as of its effective date had no material impact on the Company's financial position, results of operations and cash flows.

Note 2 - Acquisition

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On November 14, 2019, the Company acquired Nutronics, Inc. (Nutronics), a private company, pursuant to the Stock Purchase Agreement between nLIGHT, Inc. and selling stockholders of Nutronics, Inc. and sellers as of that date. The total acquisition consideration consisted of \$17.4 million in cash. Based in Longmont, Colorado, Nutronics is a leading developer of coherently combined lasers and beam control systems (BCS) for high-energy laser (HEL) systems serving the defense market.

The acquisition price was allocated to the tangible and identified intangible assets acquired and liabilities assumed as of the closing date of the acquisition based upon their respective fair values. The fair values assigned to assets acquired and liabilities assumed were based on management's best estimates and assumptions, including future tax elections, as of the reporting date and are considered preliminary. During the six months ended June 30, 2020, updated information resulted in an increase to other liabilities acquired of \$0.1 million and a corresponding adjustment to goodwill. The table below summarizes the assets acquired and liabilities assumed (in thousands):

	Valuation as of November 14, 2019	Adjustments	Balances as of June 30, 2020
Cash	\$ 33	\$ —	\$ 33
Accounts receivable	635	—	635
Contract assets	456	—	456
Inventory	255	—	255
Other current assets	201	—	201
Property, plant and equipment	1,019	—	1,019
Security deposits	46	—	46
Tangible assets acquired	2,645	—	2,645
Accounts payable	(278)	—	(278)
Other liabilities	(477)	(100)	(577)
Deferred revenue	(141)	—	(141)
Liabilities assumed	(896)	(100)	(996)
Total tangible assets acquired and liabilities assumed	1,749	(100)	1,649
Intangible assets	7,200		7,200
Goodwill	8,484	100	8,584
Net assets acquired	\$ 17,433	\$ —	\$ 17,433

The intangible assets as of the November 14, 2019 acquisition date were as follows (in thousands):

	Amount	Weighted-Average Useful Life (in years)
Development programs	\$ 7,200	3.1

Pro forma financial information has not been provided for the purchase as it was not material to the Company's overall financial position.

Note 3 - Revenue

The following tables represent a disaggregation of revenue from contracts with customers for the periods presented (in thousands):

Sales by End Market

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Industrial	\$ 22,630	\$ 20,920	\$ 38,620	\$ 39,044
Microfabrication	14,300	18,094	24,719	32,627
Aerospace and Defense	15,208	9,034	32,014	18,238
	\$ 52,138	\$ 48,048	\$ 95,353	\$ 89,909

Sales by Geography

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
North America	\$ 20,494	\$ 18,142	\$ 41,540	\$ 33,912
China	21,495	18,201	33,537	31,854
Rest of World	10,149	11,705	20,276	24,143
	<u>\$ 52,138</u>	<u>\$ 48,048</u>	<u>\$ 95,353</u>	<u>\$ 89,909</u>

Sales by Timing of Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Point in time	\$ 45,273	\$ 46,886	\$ 82,203	\$ 87,493
Over time	6,865	1,162	13,150	2,416
	<u>\$ 52,138</u>	<u>\$ 48,048</u>	<u>\$ 95,353</u>	<u>\$ 89,909</u>

The Company's contract assets and liabilities are as follows (in thousands):

	Balance Sheet Classification	As of	
		June 30, 2020	December 31, 2019
Contract assets	Prepaid expenses and other current assets	\$ 2,572	\$ 2,449
Contract liabilities	Deferred revenue	2,472	881

During the three and six months ended June 30, 2020, the Company recognized revenue of \$1.2 million and \$1.5 million, respectively, that was included in the deferred revenue balances at the beginning of the periods as the performance obligations under the associated agreements were satisfied.

Note 4 - Concentrations of Credit and Other Risks

The following customers accounted for 10% or more of the Company's revenues for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Quick Laser Technology Co., Ltd.	15%	10%	12%	*
U.S. Government	12%	*	11%	*
Raytheon Technologies	11%	*	13%	10%

*Represents less than 10% of total revenues

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of accounts receivable. As of June 30, 2020, one customer accounted for approximately 27% of net accounts receivable. As of December 31, 2019, two customers accounted for approximately 48% of net accounts receivable. No other customers accounted for 10% or more of net accounts receivable in either of these periods.

Note 5 - Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash equivalents, accounts receivable and accounts payable, are shown at cost which approximates fair value due to the short-term nature of these instruments. The fair value of the Company's term and revolving loans with Pacific Western Bank, also described in Note 12, approximates the carrying value due to the variable market rate used to calculate interest payments.

The Company does not have any other significant financial assets or liabilities that are measured at fair value.

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Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 Inputs: Observable inputs, such as quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.
- Level 2 Inputs: Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial instruments that are carried at fair value consist of Level 1 assets which include highly liquid investments and bank drafts classified as cash equivalents. The Company's fair value hierarchy for its financial instruments consists of cash equivalents as follows (in thousands):

June 30, 2020					
	Level 1	Level 2	Level 3	Total	
Money market securities	\$ 74,074	\$ —	\$ —	\$ 74,074	
Commercial paper	4,168	—	—	4,168	
Total	\$ 78,242	\$ —	\$ —	\$ 78,242	

December 31, 2019					
	Level 1	Level 2	Level 3	Total	
Money market securities	\$ 94,260	\$ —	\$ —	\$ 94,260	
Commercial paper	2,401	—	—	2,401	
Total	\$ 96,661	\$ —	\$ —	\$ 96,661	

Note 6 - Inventory

Inventory is stated at the lower of average cost and net realizable value. Inventory consisted of the following (in thousands):

	As of	
	June 30, 2020	December 31, 2019
Raw materials	\$ 18,923	\$ 16,643
Work in process and semi-finished goods	19,580	17,723
Finished goods	12,108	11,765
	<u>\$ 50,611</u>	<u>\$ 46,131</u>

Note 7 - Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	Useful life (years)	As of	
		June 30, 2020	December 31, 2019
Computer hardware and software	3-5	\$ 5,055	\$ 4,764
Manufacturing and lab equipment	2-7	63,107	59,395
Office equipment and furniture	5-7	1,330	1,462
Leasehold improvements	2-12	20,910	20,759
Buildings	30	9,337	—
Land	N/A	3,399	—
		103,138	86,380
Accumulated depreciation		(61,789)	(58,633)
		<u>\$ 41,349</u>	<u>\$ 27,747</u>

On March 31, 2020, the Company purchased a commercial property in Camas, Washington that consists of approximately 21 acres of land and two buildings with approximately 165,000 square feet of office space, clean rooms and manufacturing space. The property was purchased "as is", and the Company intends to use the property as its new headquarters following the completion of certain renovations and modifications.

Note 8 - Intangible Assets and Goodwill
Intangibles

The details of amortizing intangible assets are as follows (in thousands, except for estimated useful lives):

	Estimated useful life (in years)	As of	
		June 30, 2020	December 31, 2019
Patents	3 - 5	\$ 6,586	\$ 5,956
Development programs	2 - 4	7,200	7,200
		13,786	13,156
Accumulated amortization		(4,937)	(3,150)
		<u>\$ 8,849</u>	<u>\$ 10,006</u>

Goodwill

The carrying amount of goodwill by segment was as follows (in thousands):

	Laser Products	Advanced Development	Totals
Balance, December 31, 2019	\$ 1,387	\$ 8,484	\$ 9,872
Purchase price adjustment	—	100	100
Balance, June 30, 2020	<u>\$ 1,387</u>	<u>\$ 8,584</u>	<u>\$ 9,972</u>

An adjustment to other liabilities acquired in the Nutronics acquisition resulted in additional goodwill. See Note 2.

Note 9 - Other Assets

Other assets consisted of the following (in thousands):

	As of	
	June 30, 2020	December 31, 2019
Demonstration assets, net	\$ 2,252	\$ 1,824
Deferred tax assets, net	72	72
Other	2,516	1,852
	<u>\$ 4,840</u>	<u>\$ 3,748</u>

Demonstration (demo) assets are equipment that is used for demonstration and other purposes with existing and prospective customers. Demo assets are recorded at cost and amortized over an estimated useful life of approximately two years. Amortization expense was as follows for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Amortization expense	\$ 518	\$ 433	\$ 1,022	\$ 901

Note 10 - Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of	
	June 30, 2020	December 31, 2019
Accrued payroll and benefits	\$ 9,093	\$ 8,208
Product warranty, current	1,918	1,683
Income tax payable	6	155
Other accrued expenses	1,162	1,559
	<u>\$ 12,179</u>	<u>\$ 11,605</u>

Note 11 - Product Warranties

The Company provides warranties on certain products and records a liability for the estimated future costs associated with warranty claims at the time revenue is recognized. The warranty liability is based on historical experience, any specifically identified failures, and its estimate of future costs.

Product warranty liability activity for the six months ended June 30, 2020 and 2019 was as follows (in thousands):

	Six Months Ended June 30,	
	2020	2019
Product warranty liability, beginning	\$ 2,984	\$ 4,555
Warranty charges incurred, net	(1,531)	(1,161)
Provision for warranty charges, net of adjustments	2,271	249
Acquired warranty	100	—
Product warranty liability, ending	\$ 3,824	\$ 3,643
Less: current portion of product warranty liability	(1,918)	(2,002)
Non-current portion of product warranty liability	<u>\$ 1,906</u>	<u>\$ 1,641</u>

Note 12 - Commitments and Contingencies

Leases

See Note 13.

Credit Facilities

The Company has a \$40.0 million revolving line of credit (LOC) with Pacific Western Bank which is secured by its assets and expires in September 2021. Interest on the LOC is based primarily on the London Interbank Offered Rate (LIBOR), or an alternative rate such as the Prime rate, plus or minus, respectively, a margin based on certain liquidity levels. The loan agreement contains restrictive and financial covenants and bears an unused credit fee of 0.20% on an annualized basis. As of June 30, 2020, \$15.0 million was outstanding under the LOC and is classified in the Company's consolidated balance sheet as long-term debt as no payments are due currently. The Company was in compliance with all covenants under the loan agreement, and \$24.5 million was available for borrowing under the LOC as of June 30, 2020.

Contractual Commitments and Purchase Obligations

The Company's purchase obligations and other contractual obligations have not materially changed as of June 30, 2020 from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2019.

Legal Matters

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. As of June 30, 2020, and as of the filing of this Quarterly Report on Form 10-Q, the Company was not involved in any material legal proceedings.

Note 13 - Leases

Adoption of ASC 842

The Company adopted ASU 2016-02, *Leases (Topic 842)* and related amendments, using the modified transition approach with an effective date of January 1, 2020. The modified transition approach permits a company to use its effective date as the date of initial application to apply the standard to its leases, and, therefore, not restate comparative prior period financial information. Consequently, prior period financial information is not updated, and the disclosures required under the new standard will not be provided for dates and periods prior to January 1, 2020. The adoption of the lease standard did not have any effect on our previously reported consolidated financial statements and did not result in a cumulative catch-up adjustment to opening equity.

Transition Practical Expedients and Elections

The standard provides several optional practical expedients in transition. The Company elected the 'package of practical expedients,' which permits it to not reassess, under the new standard, the Company's prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to it. The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption; for those leases that qualify, the Company will not recognize a right-of-use asset or lease liability, and this includes not recognizing right-of-use assets or lease liabilities for existing short-term leases of those assets in transition. The Company also elected the practical expedient to not separate lease and non-lease components for all its leases.

Lease Accounting

We lease real estate space under non-cancelable operating lease agreements for commercial and industrial space, as well as our corporate headquarters located in Vancouver, Washington. Our facilities-related operating leases have remaining terms of 0.25 to 14.9 years, and some leases include options to extend up to 15 years. We also have leases for automobiles, manufacturing and office and computer equipment with remaining lease terms of 0.3 to 3.7 years. These leases are primarily operating leases; financing leases are not material. We did not include any of our renewal options in our lease terms for calculating our lease liability as we are not reasonably certain we will exercise the options at this time. The weighted-average remaining lease term for our lease obligations was 9.1 years at June 30, 2020, and the weighted-average discount rate was 3.6%.

The components of lease expense related to operating leases were as follows (in thousands):

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Lease expense:		
Operating lease expense	\$ 651	\$ 1,420
Short-term lease expense	31	118
Variable and other lease expense	107	253
	<u>\$ 789</u>	<u>\$ 1,791</u>

Future minimum payments under our non-cancelable lease obligations were as follows as of June 30, 2020 (in thousands):

Remainder of 2020	\$ 1,582
2021	2,366
2022	1,711
2023	1,163
2024	1,105
Thereafter	5,582
	<u>\$ 13,509</u>

Note 14 - Income Taxes

Income Tax Provision

To calculate the interim tax provision, at the end of each interim period the Company estimates the annual effective tax rate and applies that to its ordinary quarterly earnings. The effect of changes in the enacted tax laws or rates is recognized in the interim period in which the change occurs. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and judgments including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent differences between book and tax amounts, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained, or the tax environment changes.

The Company's effective tax rate for the three and six months ended June 30, 2020 and 2019 differs from the U.S. statutory rate due to the U.S. and China valuation allowance, foreign income taxed at local statutory rates, and accrued withholding taxes. For the six months ended June 30, 2020, the Company reported U.S. and China pre-tax losses. The Company has not yet been able to establish a sustained level of profitability in the U.S. and China, or other sufficient significant positive evidence, to conclude that its U.S. and China deferred tax assets are more likely than not to be realized. Therefore, the Company continues to maintain a valuation allowance against its U.S. and China deferred tax assets.

Note 15 - Stockholders' Equity and Stock-Based Compensation

Restricted Stock Awards and Units

Restricted stock award (RSA) and restricted stock unit (RSU) activity under our equity incentive plan was as follows (in thousands, except weighted average grant date fair values):

	Number of Restricted Stock Awards	Weighted-Average Grant Date Fair Value
RSAs at December 31, 2019	459	\$ 20.49
Awards granted	—	—
Awards vested	(72)	21.40
Awards forfeited and modified	—	—
RSAs at June 30, 2020	<u>387</u>	<u>\$ 20.32</u>

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
RSUs at December 31, 2019	2,407	\$ 19.47
Awards granted	99	14.28
Awards vested	(293)	22.53
Awards forfeited & modified	(53)	19.29
RSUs at June 30, 2020	2,160	\$ 18.81

The total fair value of RSAs and RSUs vested during the six months ended June 30, 2020 was \$1.5 million and \$6.6 million, respectively. Awards outstanding as of June 30, 2020 include 0.5 million performance-based awards that will vest upon meeting certain performance criteria.

Stock Options

The following table summarizes the Company's stock option activity during the six months ended June 30, 2020 (in thousands, except weighted average exercise prices):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2019	4,239	\$1.54	6.1	\$79,443
Options exercised	(518)	\$1.65		
Options canceled	(10)	\$1.16		
Outstanding, June 30, 2020	3,711	\$1.53	5.7	\$76,948
Options exercisable at June 30, 2020	2,871	\$1.04	5.4	\$60,906
Options vested as of June 30, 2020 and expected to vest after June 30, 2020	3,711	\$1.53	5.7	\$76,948

Total intrinsic value of options exercised for the six months ended June 30, 2020 and 2019 was \$8.8 million and \$10.4 million, respectively. The Company received proceeds of \$0.9 million and \$0.9 million from the exercise of options for the six months ended June 30, 2020 and 2019, respectively.

Employee Stock Purchase Plan

Information related to activity under our Employee Stock Purchase Plan (ESPP) was as follows (in thousands, except weighted-average per share prices):

	Six Months Ended June 30, 2020
Shares issued	39
Weighted-average per share purchase price	\$ 17.53
Weighted-average per share discount from the fair value of the Company's common stock on date of issuance	\$ 3.85

Stock-Based Compensation

Total stock-based compensation expense was included in our consolidated statements of operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenues	\$ 339	\$ 267	\$ 684	\$ 476
Research and development	2,275	711	4,057	1,269
Sales, general and administrative	3,423	1,403	5,059	2,545
	\$ 6,037	\$ 2,381	\$ 9,800	\$ 4,290

Unrecognized Compensation Costs

As of June 30, 2020, total unrecognized stock-based compensation related to unvested stock awards was \$40.9 million, which will be recognized over the next five years as follows (in thousands):

Remainder of 2020	\$	9,086
2021		15,164
2022		11,001
2023		5,623
2024		20
	\$	<u>40,894</u>

Total unrecognized stock-based compensation includes approximately 0.3 million awards that do not have a measurement date and have been valued as of June 30, 2020.

Common Stock Repurchase Plan

On November 14, 2019, the Company's Board of Directors authorized the repurchase of up to \$10.0 million of its outstanding shares of common stock. This program is intended to offset the potentially dilutive effects of restricted stock grants awarded in connection with the acquisition of Nutronics, Inc. (See Note 2 for additional information.) As of June 30, 2020, no repurchases had been executed under the program.

Note 16 - Segment Information

The Company operates in two reportable segments consisting of the Laser Products segment and the Advanced Development segment. The following table summarizes the operating results by reportable segment for the period presented (dollars in thousands):

	Three Months Ended June 30, 2020			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	\$ 45,104	\$ 7,034	\$ —	\$ 52,138
Gross profit	\$ 12,846	\$ 549	\$ (339)	\$ 13,056
Gross margin	28.5%	7.8%	NM	25.0%

	Six Months Ended June 30, 2020			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	\$ 82,034	\$ 13,319	\$ —	\$ 95,353
Gross profit	\$ 22,221	\$ 1,020	\$ (684)	\$ 22,557
Gross margin	27.1%	7.7%	NM	23.7%

Corporate and Other is unallocated expenses related to stock-based compensation. Since the Company operated only in the Laser Products segment prior to the acquisition of Nutronics in November 2019, no comparative information is presented for 2019.

Except as described in Note 7, there have been no material changes to the geographic locations of the Company's long-lived assets, net, based on the location of the assets, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Note 17 - Net Income (Loss) per Share

The following table sets forth the calculation of basic and diluted net loss per share during the periods presented (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net loss	\$ (6,830)	\$ (155)	\$ (14,305)	\$ (1,390)
Denominator:				
Weighted-average shares, basic	38,177	37,065	38,003	36,880
Weighted-average shares, diluted	38,177	37,065	38,003	36,880
Net loss per share:				
Basic	\$ (0.18)	\$ —	\$ (0.38)	\$ (0.04)
Diluted	\$ (0.18)	\$ —	\$ (0.38)	\$ (0.04)

The following potentially dilutive shares of restricted stock awards and units, employee stock purchase plan, and stock options were not included in the calculation of diluted shares above as the effect would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Restricted stock units and awards	2,293	1,906	2,260	1,906
Employee stock purchase plan	20	40	—	75
Common stock options	3,711	4,615	3,711	4,615
Total	6,024	6,561	5,971	6,596

Note 18 - Subsequent Events

On July 1, 2020, the Company entered into a lease amendment related to its Longmont, Colorado facilities. The agreement included lease modifications that extended the lease term on the Company's existing premises and added a new right-of-use asset consisting of expansion premises. The lease, as modified, includes a minimum lease term of five years. The lease modifications together resulted in increases to the Company's balance sheet of approximately \$2.0 million each in right-of-use assets and lease liabilities as of the lease modification date.

On July 24, 2020, the Company paid in full the \$15.0 million outstanding principal balance on the LOC with Pacific Western Bank. As of that date, \$39.5 million was available for borrowing under the LOC.

On July 30, 2020, the Company acquired 100% of the equity interests in OPI Photonics S.r.l. (OPI), an Italian limited liability company, pursuant to a Sale and Purchase Agreement between nLIGHT, Inc. and selling stockholders of OPI for a purchase price of €1.55 million in cash, subject to adjustment for earn-out and hold-back amounts. OPI is located in Turin, Italy and develops high power multi-emitter laser diode sources and innovative devices for kilowatt fiber laser beam management, including beam collimation, coupling and switching.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by the following words: "ability," "anticipate," "attempt," "believe," "can be," "continue," "could," "depend," "enable," "estimate," "expect," "extend," "grow," "if," "intend," "likely," "may," "objective," "ongoing," "plan," "possible," "potential," "predict," "project," "propose," "rely," "should," "target," "will," "would" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words.

These statements involve risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement, we caution you that these statements are based on a combination of facts and factors currently known by us and our projections of the future, about which we cannot be certain.

Forward-looking statements include, but are not limited to, statements about: the size of our market opportunity; our ability to compete effectively against other providers of similar products and services, as well as competing technologies; applications and processes that will use lasers, including the suitability of our products; our ability to develop new technology, designs and applications for our lasers; the reduction in cost per brilliant watt and increase in power of semiconductor lasers going forward; the implementation of our business model and strategic plans, including estimates regarding future sales, revenues, expenses, acquisitions, investments, capital requirements and stock performance; our future financial performance; fluctuations in our quarterly results of operations and other operating measures, particularly as a result of seasonality; the regulatory regime for our products and services, domestically and internationally; the adoption of our products or lasers generally and the growth of the laser market broadly and within specific industries; our utilization of vertical integration; our ability to adequately protect our intellectual property rights; our ability to maintain and grow our relationships with our foreign customers; the impact on our sales and operations of public health crises in China, the United States or internationally, including the current COVID-19 pandemic and our response to it; the effect on our business of litigation to which we are or may become a party; our ability to maintain an effective system of internal controls necessary to accurately report our financial results and prevent fraud; future macroeconomic conditions and the effect of trade restrictions and new or increased tariffs on our products; the sufficiency of our existing liquidity sources to meet our cash needs; and our ability to sustain and manage growth in our business.

You should refer to the "Risk Factors" section of this report for a discussion of other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report, which although we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted a thorough inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

nLIGHT, Inc., headquartered in Vancouver, Washington, is a leading provider of high-power semiconductor and fiber lasers. Revolutionizing laser technology, we are making the impossible possible. We design, develop and manufacture the critical elements of our lasers, and we believe our vertically integrated business model enables us to rapidly introduce innovative products, control our costs and protect our intellectual property.

In November 2019, we acquired Nutronics, Inc. (Nutronics), based in Longmont, Colorado, a leading developer of coherently combined lasers and beam control systems (BCS) for high-energy laser (HEL) systems serving the defense market. Our consolidated financial results for the three and six months ended June 30, 2020 include the results of Nutronics, and therefore may not be directly comparable to the corresponding period of 2019, which does not include the results of Nutronics.

Since the acquisition of Nutronics, we operate in two reportable segments consisting of the Laser Products segment and Advanced Development segment. Sales of our semiconductor lasers, fiber lasers and optical fibers are included in the Laser Products segment, while revenue earned from research and development contracts are included in the Advanced Development segment.

Revenues increased to \$95.4 million in the six months ended June 30, 2020 compared to \$89.9 million in the same period of 2019 as a result of higher revenue from the Aerospace and Defense market, including the acquisition of Nutronics, offset partially by lower revenues from the Microfabrication market. We generated a net loss of \$14.3 million for the six months ended June 30, 2020 as compared to a net loss of \$1.4 million for the same period of 2019. The higher net loss in 2020 was driven by a decrease in gross margins on product sales, increased stock-based compensation, and amortization of intangible assets from the Nutronics acquisition.

Factors Affecting Our Performance

Impact of the COVID-19 Pandemic on Our Business

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. COVID-19 continues to spread throughout the United States and the world, including in geographies in which we and our customers operate. Our first priority is the health and safety of our employees and our communities. As of the date of this report, all our U.S. operating locations have

been deemed essential and all of our global manufacturing facilities are fully operational. Our Shanghai manufacturing facility was closed for an additional week following the Chinese New Year, due to COVID-19, but has since re-opened. All of our facilities have implemented a variety of policies and procedures, including additional cleaning, social distancing, wearing masks, staggered shifts and prohibiting or significantly restricting on-site visitors, to minimize the risk to our employees.

The impact from the rapidly changing U.S. and global market and economic conditions due to the COVID-19 pandemic is uncertain, with disruptions to the business of our customers and suppliers, which may materially adversely impact our business, operations, demand for our products and coincidentally our consolidated results of operations and financial condition in the future. In response to mandates ordered by global government authorities, our non-manufacturing and technical service personnel outside of China have been primarily working from home since March 2020. While we have not incurred significant disruptions to our manufacturing or to our supply chain thus far from the COVID-19 pandemic, we may experience decreased demand from certain customers. We are unable to accurately predict the impact COVID-19 will have due to numerous uncertainties, including the severity of the disease, the duration of the pandemic, potential resurgence of outbreaks in locations where outbreaks have previously been contained, actions that may be taken by governmental authorities, the impact to our customers' and suppliers' businesses and other factors identified in the "Risk Factors" section of this report. We are continuing to evaluate closely the nature and extent of the impact to our business, consolidated results of operations, and financial condition.

Demand for our Semiconductor and Fiber Laser Solutions

In order to continue to grow our revenues, we must continue to achieve design wins for our semiconductor and fiber lasers. We consider a design win to occur when a customer notifies us that it has selected one of our products to be incorporated into a product or system under development by such customer. For the foreseeable future, our operations will continue to depend upon capital expenditures by customers in the Industrial and Microfabrication markets, which, in turn, depend upon the demand for these customers' products or services. In addition, in the Aerospace and Defense market, our business depends in large part on continued investment in laser technology by the U.S. government and its allies, and our ability to continue to successfully develop leading technology in this area.

Erosion of average selling prices, or ASPs, of established products is typical in our industry, and the ASPs of our products generally decrease as our products mature. We may also negotiate discounted selling prices from time to time with certain customers that purchase higher volumes, or to penetrate new markets or applications. Historically, we have been able to offset decreasing ASPs by introducing new and higher value products, increasing the sales of our existing products, expanding into new applications and reducing our manufacturing costs. However, recent ASP pressure has been more pronounced, and as a result, we have only been able to partially offset the impact of the lower selling prices. Certain of our competitors have continued to reduce the price of their fiber lasers sold in the China Industrial market. Although we anticipate further increases in product volumes and the continued introduction of new and higher value products, we expect further ASP reduction that may cause our revenues to decline or grow at a slower rate.

Technology and New Product Development

We invest heavily in the development of our semiconductor and fiber laser technologies to provide solutions to our current and future customers. We anticipate that we will continue to invest in research and development to achieve our technology and product roadmap. Our product development is targeted to specific sectors of the market where we believe the power and performance requirements of our products can provide the most benefit. We believe our close coordination with our customers regarding their future product requirements enhances the efficiency of our research and development expenditures.

Manufacturing Costs and Gross Margins

Our gross profit, in absolute dollars and as a percentage of revenues, is impacted by our product sales mix, sales volumes, changes in ASPs, production volumes, the corresponding absorption of manufacturing overhead expenses, production costs and manufacturing yields. Our product sales mix can affect gross profits due to variations in profitability related to product- configurations and cost profiles, customer volume pricing, availability of competitive products in various markets, and new product introductions, among other factors. Capacity utilization affects our gross margin because we have a high fixed cost base due to our vertically integrated business model. Increases in sales and production volumes drive favorable absorption of fixed costs, improved manufacturing efficiencies and lower production costs. Gross margins may fluctuate from period to period depending on product mix and the level of capacity utilization.

Given the fixed nature of our facilities and equipment costs, we expect gross margin to increase as revenues and volumes increase. Historically, gross margins have fluctuated from period to period depending on product mix and the level of capacity utilization. However, in recent periods, gross margins have been negatively affected by increased tariff costs as a result of the trade war

between the United States and China. So long as such increased tariff costs remain in place or increase further, our gross margins may continue to decline unless we can sufficiently increase our prices to offset those costs.

Seasonality

Our quarterly revenues can fluctuate with general economic trends, holidays in foreign countries such as Chinese New Year in the first quarter of our fiscal year, the timing of capital expenditures by our customers, and general economic trends. In addition, as is typical in our industry, we tend to recognize a larger percentage of our quarterly revenues in the last month of the quarter, which may impact our working capital trends.

Results of Operations

The following table sets forth our operating results as a percentage of revenues for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue:				
Products	86.5 %	100.0 %	86.0 %	100.0 %
Development	13.5 %	—	14.0	—
Total revenue	100.0 %	100.0	100.0	100.0
Cost of revenue:				
Products	62.5	67.0	63.4	67.3
Development	12.5	—	12.9	—
Total cost of revenue	75.0	67.0	76.3	67.3
Gross profit	25.0	33.0	23.7	32.7
Operating expenses:				
Research and development	18.1	13.5	18.9	14.4
Sales, general, and administrative	18.5	17.8	18.2	18.6
Total operating expenses	36.6	31.3	37.1	33.0
Loss from operations	(11.6)	1.7	(13.4)	(0.3)
Other income (expense):				
Interest income (expense), net	(0.1)	1.6	0.2	1.7
Other income (expense), net	(0.6)	(1.9)	(0.4)	(0.1)
Income (loss) before income taxes	(12.3)	1.4	(13.6)	1.3
Income tax expense	0.8	1.7	1.4	2.8
Net loss	(13.1)%	(0.3)%	(15.0)%	(1.5)%

Revenues by Segment

Our revenues by segment were as follows for the periods presented (dollars in thousands):

	Three Months Ended June 30,				Change	
	2020	% of Revenue	2019	% of Revenue	\$	%
Laser Products	\$ 45,104	86.5%	\$ 48,048	100.0%	\$ (2,944)	(6.1)%
Advanced Development	7,034	13.5	—	—	7,034	NM
	<u>\$ 52,138</u>	<u>100.0%</u>	<u>\$ 48,048</u>	<u>100.0%</u>	<u>\$ 4,090</u>	<u>8.5 %</u>

	Six Months Ended June 30,				Change	
	2020	% of Revenue	2019	% of Revenue	\$	%
Laser Products	\$ 82,034	86.0%	\$ 89,909	100.0%	(7,875)	(8.8)%
Advanced Development	13,319	14.0	—	—	13,319	NM
	<u>\$ 95,353</u>	<u>100.0%</u>	<u>\$ 89,909</u>	<u>100.0%</u>	<u>5,444</u>	<u>6.1 %</u>

The decrease in Laser Products revenue for the three and six months ended June 30, 2020, compared to the same periods of 2019, was driven by decreased revenue in the Microfabrication market, offset partially by increased revenue in the Aerospace and Defense market. Prior to the acquisition of Nutronics in November 2019, we operated only in the Laser Products segment. The Laser Products segment for the three and six months ended June 30, 2019 includes approximately \$1.2 million and \$2.4 million, respectively, of revenue earned from non-Nutronics research and development contracts.

Revenues by End Market

Our revenues by end market were as follows for the periods presented (dollars in thousands):

	Three Months Ended June 30,				Change	
	2020	% of Revenue	2019	% of Revenue	\$	%
Industrial	\$ 22,630	43.4%	\$ 20,920	43.5%	\$ 1,710	8.2 %
Microfabrication	14,300	27.4	\$ 18,094	37.7	(3,794)	(21.0)
Aerospace and Defense	15,208	29.2	\$ 9,034	18.8	6,174	68.3
	<u>\$ 52,138</u>	<u>100.0%</u>	<u>\$ 48,048</u>	<u>100.0%</u>	<u>\$ 4,090</u>	<u>8.5 %</u>

	Six Months Ended June 30,				Change	
	2020	% of Revenue	2019	% of Revenue	\$	%
Industrial	\$ 38,620	40.5%	\$ 39,044	43.4%	\$ (424)	(1.1)%
Microfabrication	24,719	25.9	32,627	36.3	(7,908)	(24.2)
Aerospace and Defense	32,014	33.6	18,238	20.3	13,776	75.5
	<u>\$ 95,353</u>	<u>100.0%</u>	<u>\$ 89,909</u>	<u>100.0%</u>	<u>\$ 5,444</u>	<u>6.1 %</u>

The increase in revenue from the Industrial market for the three months ended June 30, 2020, compared to the same period of 2019, was driven by an increase in unit sales offset partially by a decrease in average selling price (ASP), while the decrease in revenue from the Industrial market for the six months ended June 30, 2020, compared to the same period of 2019, was driven by a decrease in ASP offset partially by increased unit sales. The decrease in revenue from the Microfabrication market for the three and six months ended June 30, 2020, compared to the same periods of 2019, was driven primarily by lower unit sales to customers for consumer electronics and semiconductors. The increase in revenue from the Aerospace and Defense end market for the three and six months ended June 30, 2020, compared to the same periods of 2019, was primarily attributable to the acquisition of Nutronics, and an increase in unit sales to new and existing customers for defense applications.

Revenues by Geographic Region

Our revenues by geographic region were as follows for the periods presented (dollars in thousands):

	Three Months Ended June 30,				Change	
	2020	% of Revenue	2019	% of Revenue	\$	%
North America	\$ 20,494	39.3%	\$ 18,142	37.8%	\$ 2,352	13.0 %
China	21,495	41.2	18,201	37.9	3,294	18.1
Rest of World	10,149	19.5	11,705	24.3	(1,556)	(13.3)
	<u>\$ 52,138</u>	<u>100.0%</u>	<u>\$ 48,048</u>	<u>100.0%</u>	<u>\$ 4,090</u>	<u>8.5 %</u>

	Six Months Ended June 30,				Change	
	2020	% of Revenue	2019	% of Revenue	\$	%
North America	\$ 41,540	43.6%	\$ 33,912	37.7%	\$ 7,628	22.5 %
China	33,537	35.2	31,854	35.4	1,683	5.3
Rest of World	20,276	21.2	24,143	26.9	(3,867)	(16.0)
	\$ 95,353	100.0%	\$ 89,909	100.0%	\$ 5,444	6.1 %

Geographic revenue information is based on the location to which we ship our products. The increase in North America revenue for the three and six months ended June 30, 2020 compared to the same periods of 2019 was primarily driven by the acquisition of Nutronics and increased sales in the Aerospace and Defense market, partially offset by decreased sales in the Microfabrication market. The increase in China revenue for the three and six months ended June 30, 2020 compared to the same periods of 2019 was primarily due to increased sales in the Industrial market. The decrease in Rest of World revenue for the three and six months ended June 30, 2020 compared to the same periods of 2019 was primarily driven by decreased sales in the Microfabrication and Industrial markets.

Cost of Revenues and Gross Margin

Cost of revenues consists primarily of manufacturing materials, payroll, shipping and handling costs, tariffs and manufacturing-related overhead. We order materials and supplies based on backlog and forecasted customer orders. We expense all warranty costs and inventory provisions as cost of revenues.

Our gross profit and gross margin were as follows for the periods presented (dollars in thousands):

	Three Months Ended June 30,						Change	
	Laser Products	Advanced Development	Corporate and Other	2020	2019		\$	%
Gross profit	\$ 12,846	\$ 549	\$ (339)	\$ 13,056	\$ 15,871	\$ (2,815)		(17.7)%
Gross margin	28.5%	7.8%	NM	25.0%	33.0%	—		(8.0)%

	Six Months Ended June 30,						Change	
	Laser Products	Advanced Development	Corporate and Other	2020	2019		\$	%
Gross profit	\$ 22,221	\$ 1,020	\$ (684)	\$ 22,557	\$ 29,385	\$ (6,828)		(23.2)%
Gross margin	27.1%	7.7%	NM	23.7%	32.7%	—		(9.0)%

The decrease in Laser Products gross margin for the three and six months ended June 30, 2020, compared to the same periods of 2019, was driven primarily by price reductions in the industrial market and increased reserve charges, offset partially by lower product costs. Since we operated only in the Laser Products segment prior to the acquisition of Nutronics in 2019, no segment breakout is presented for the comparative periods in 2019.

Operating Expenses

Our operating expenses were as follows for the periods presented (dollars in thousands):

Research and Development

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
Research and development	\$ 9,472	\$ 6,494	\$ 2,978	45.9%

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
Research and development	\$ 18,010	\$ 12,916	\$ 5,094	39.4%

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The increase in research and development expense for the three and six months ended June 30, 2020, compared to the same periods in 2019, was primarily due to increases in stock-based compensation of \$1.6 million and \$2.8 million, respectively; increases in purchased intangible amortization from the Nutronics acquisition of \$0.7 million and \$1.3 million, respectively; and increased project-related costs to support our development efforts.

Sales, General and Administrative

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
Sales, general, and administrative	\$ 9,633	\$ 8,572	\$ 1,061	12.4%
	Six Months Ended June 30,		Change	
	2020	2019	\$	%
Sales, general, and administrative	\$ 17,333	\$ 16,716	\$ 617	3.7%

The increase in sales, general and administrative expense for the three and six months ended June 30, 2020, compared to the same periods in 2019 was primarily due to increases in stock-based compensation of \$2.0 million and \$2.5 million, respectively, offset partially by decreases in marketing costs, travel and entertainment, and professional service fees.

Interest Income (Expense), net

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
Interest income (expense), net	\$ (65)	\$ 740	\$ (805)	(108.8)%
	Six Months Ended June 30,		Change	
	2020	2019	\$	%
Interest income (expense), net	\$ 218	\$ 1,490	\$ (1,272)	(85.4)%

The decrease in interest income (expense), net, for the three and six months ended June 30, 2020, compared to the same periods in 2019 was primarily attributable to lower balances in our money market funds coupled with a decrease in the market rates on those funds. In addition, during the three months ended June 30, 2020, we incurred approximately \$0.1 million interest on the \$15.0 million outstanding balance on our credit revolver, as compared to zero in the comparable period of 2019.

Other Income (Expense), net

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
Other income (expense), net	\$ (298)	\$ (907)	\$ 609	67.1%
	Six Months Ended June 30,		Change	
	2020	2019	\$	%
Other income (expense), net	\$ (414)	\$ (87)	\$ (327)	(375.9)%

The changes in other income (expense), net for the three and six months ended June 30, 2020, compared to the same periods in 2019 was primarily attributable to changes in net unrealized and realized foreign exchange transactions resulting from currency rate fluctuations.

Income Tax Expense

	Three Months Ended June 30,		Change	
	2020	2019	\$	%
Income tax expense	\$ 418	\$ 793	\$ (375)	(47.3)%

	Six Months Ended June 30,		Change	
	2020	2019	\$	%
Income tax expense	\$ 1,323	\$ 2,546	\$ (1,223)	(48.0)%

We record income tax expense for taxes in our foreign jurisdictions including Finland and Korea. We also record tax expense for uncertain tax positions taken and associated penalties and taxes. We consider all available evidence, both positive and negative, in assessing the extent to which a valuation allowance should be applied against our deferred tax assets. Due to the uncertainty with respect to their ultimate realizability in the U.S. and China, we continue to maintain a full valuation allowance in both jurisdictions as of June 30, 2020.

The decrease in income tax expense for the three and six months ended June 30, 2020, compared to the same periods in 2019 was driven by a decrease in income from our Finland operations and a valuation allowance against our China deferred tax assets recorded during the fourth quarter of 2019. Our tax expense is dependent on the geographic mix of earnings and primarily related to our foreign operations.

Liquidity and Capital Resources

We had cash and cash equivalents of \$120.9 million and \$117.3 million as of June 30, 2020 and December 31, 2019, respectively.

For the six months ended June 30, 2020, our principal uses of liquidity were to acquire a commercial property in Camas, Washington and to fund our working capital needs. Our principal sources of liquidity for the six months ended June 30, 2020 included \$15.0 million in proceeds from our revolving line of credit and also optimizing vendor payments for inventory and other purchases.

We believe our existing sources of liquidity will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. However, we may need to raise additional capital to expand the commercialization of our products, fund our operations and further our research and development activities. Our future capital requirements may vary materially from period to period and will depend on many factors, including the timing and extent of spending on research and development efforts, the expansion of sales and marketing activities, the continuing market acceptance of our products and ongoing investments to support the growth of our business. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, technologies and intellectual property rights. From time to time, we may explore additional financing sources which could include equity, equity-linked and debt financing arrangements.

The following table summarizes our cash flows for the periods presented (in thousands):

	Six Months Ended June 30,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 7,002	\$ (1,183)
Net cash used in investing activities	(17,668)	(6,916)
Net cash provided by financing activities	14,340	1,147
Effect of exchange rate changes on cash	(27)	135
Net increase (decrease) in cash	\$ 3,647	\$ (6,817)

Net Cash Provided by (Used in) Operating Activities

During the six months ended June 30, 2020, net cash provided by operating activities was \$7.0 million, which was primarily driven by \$14.3 million of net loss reported for the period, and non-cash adjustments of \$17.7 million related to depreciation and amortization, stock-based compensation, and other items. These items were partially offset by increases of \$4.5 million in inventory and \$7.4 million in accounts payable. The increase in inventory supported new product introductions, decreased customer lead times and increased safety stock. The increase in accounts payable was primarily driven by timing of vendor payments.

During the six months ended June 30, 2019, net cash used in operating activities was \$1.2 million, which was driven by \$1.4 million of net loss reported in the period, and non-cash adjustments of \$8.8 million related to depreciation and amortization, stock-based compensation, and other items. These items were offset by increases of \$4.3 million in accounts receivable, \$7.0 million in inventory, and \$1.1 million in accounts payable. The reasons for the increases were as follows: in accounts receivable, due to the timing of sales and customer collections; in inventory, primarily to support new product introductions; and in accounts payable, due to timing of vendor payments.

Net Cash Used in Investing Activities

During the six months ended June 30, 2020, net cash used in investing activities was \$17.7 million, primarily resulting from \$17.0 million of capital expenditures related to the acquisition of commercial property and other investments in manufacturing equipment for our worldwide operations.

During the six months ended June 30, 2019, net cash used in investing activities was \$6.9 million, which was primarily due to capital expenditures related to investments in manufacturing equipment and facilities.

Net Cash Provided by Financing Activities

During the six months ended June 30, 2020, net cash provided by financing activities was \$14.3 million, which was primarily driven by proceeds from our revolving line of credit of \$15.0 million to acquire commercial property, and \$1.5 million of proceeds from stock options exercises and employee stock program purchases, offset by \$2.2 million of withholding tax payments related to vesting of restricted stock awards.

During the six months ended June 30, 2019, net cash provided by financing activities was \$1.1 million, which was primarily driven by \$1.7 million of proceeds from stock options exercises and employee stock program purchases, partially offset by \$0.5 million of withholding tax payments related to vesting of restricted stock awards.

Credit Facilities

We have a \$40.0 million revolving line of credit with Pacific Western Bank which is secured by our assets and expires in September 2021. Interest on the line of credit is based primarily on the London Interbank Offered Rate (LIBOR), or an alternative rate such as the Prime rate, plus or minus, respectively, a margin based on certain liquidity levels. The loan agreement contains restrictive and financial covenants and bears an unused credit fee of 0.20% on an annualized basis. As of June 30, 2020, \$15.0 million was outstanding under the line of credit and is classified in our consolidated balance sheet as long-term debt as no payments are due currently. We were in compliance with all covenants under the loan agreement, and \$24.5 million was available for borrowing under the line of credit as of June 30, 2020.

Contractual Obligations

For the six months ended June 30, 2020, there have been no material changes to our significant contractual obligations as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Off-Balance Sheet Arrangements

Since inception, we have not had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for another contractually narrow or limited purpose.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could materially adversely affect our business, financial condition and results of operations.

Recent Accounting Pronouncements

See Note 1 to Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Item 7A “Quantitative and Qualitative Disclosures about Market Risk” contained in Part II of our Annual Report on Form 10-K for the year ended December 31, 2019. Our exposure to market risk has not changed materially since December 31, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and our chief financial officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and our chief financial officer have concluded that, as of such date, our disclosure controls and procedures were, in design and operation, effective.

Changes in Internal Control over Financial Reporting

Our chief executive officer and our chief financial officer did not identify any changes in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We acquired Nutronics, Inc. (Nutronics) on November 14, 2019, and have not yet completed the process of integrating the acquired business's internal control over financial reporting into our overall internal control over financial reporting process.

Inherent Limitation on the Effectiveness of Internal Control

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

We may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As our company matures, we may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of these matters could materially adversely affect our business, financial condition, results of operations and growth prospects.

There have been no material changes to the legal proceedings disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, in addition to the other information contained in this report, including the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes. This report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this report.

Risks Related to Our Business and Industry

Our operations are vulnerable to the impact of COVID-19 and other public health crises, which have disrupted and likely will continue to disrupt our manufacturing and supply chain and adversely affect our business and operating results.

We are vulnerable to the impact of COVID-19 and other public health crises. The impact of COVID-19, including disruptions to our business, impact on end-market demand, restrictions on individual and business activities, and global liquidity concerns, has created significant volatility in the macro-economic environment and led to reduced economic activity. There have been material actions taken by global government authorities to contain and slow the spread of COVID-19, including travel bans, quarantines, and stay-at-home orders to restrict activities for individuals and businesses. The duration of many stay-at-home orders, and the conditions and timing under which many restrictions will be lifted, are unknown.

In response to mandates ordered by global government authorities, our non-manufacturing and technical service personnel outside of China have been ordered to work from home beginning in March 2020. Our global manufacturing operations, including our U.S. facilities located in Vancouver, Washington, Hillsboro, Oregon, and Longmont, Colorado have been designated as essential businesses and therefore continue to operate. Our facility in Lohja, Finland also continues to operate. Our Shanghai manufacturing facility was closed for an additional one week following the Chinese New Year, due to COVID-19, but has since re-opened. In the best interest of our employees and regions in which our teams operate, we have implemented significant preventative measures to ensure the health and safety of our employees and the communities in which we operate.

The full impact of the COVID-19 pandemic on our financial condition and results of operations will depend on future events and developments, such as the duration and magnitude of the pandemic, impacts on our suppliers and customers, the demand for our products, and whether the pandemic leads to recessionary conditions in any of our key markets. Additionally, our supply and distribution chains may be disrupted or their operations discontinued permanently. As such, the ultimate impact on our financial condition and results of operations cannot be determined at this time. In 2020, our business, financial condition and results of operations may be adversely affected as a result of the COVID-19 pandemic.

The COVID-19 pandemic may also intensify the risks described in the other risk factors disclosed in this report.

We have a history of losses, and as our operating costs increase we may not be able to generate sufficient revenues to achieve or maintain profitability in the future.

Although we were profitable in 2017 and 2018, we have incurred recurring net losses since our inception in 2000 through 2016, and since 2019. We had net loss of \$(14.3) million and \$(1.4) million for the six months ended June 30, 2020 and 2019, respectively. We had an accumulated deficit of \$(131.8) million as of June 30, 2020.

We expect our operating costs to continue to increase in future periods as we expend substantial financial and other resources on, among other things, business and headcount expansion in operations, sales and marketing, research and development, and administration as a public company. These expenditures may not result in additional revenues or the growth of our business. If we fail to grow revenues or to sustain profitability while our operating costs increase, our business, financial condition, results of operations and growth prospects will be materially adversely affected.

Downturns in the markets we serve could materially adversely affect our revenues and profitability.

Our results of operations may vary based on the impact of changes in the industries we serve or in the global economy. A large portion of our revenue growth substantially depends on demand for our products in the Industrial and Microfabrication markets. For our products sold to the Industrial market, we believe demand is largely based on general economic conditions. Adverse changes in the global economy have occurred and may occur in the future as a result of declining or flat global or regional economic conditions, fluctuations in currency and commodity prices, the impact of the COVID-19 pandemic, trade restrictions or impositions of new or increased tariffs, wavering confidence, unemployment, declines in stock markets, contraction of credit availability or other factors affecting economic conditions generally. We cannot predict the timing, strength or duration of any economic slowdown or recovery, whether global, regional or within specific markets.

For the Microfabrication market, a portion of our revenues depends on the demand for our products from semiconductor equipment companies. The semiconductor equipment market has historically been characterized by sudden and severe cyclical variations in product supply and demand, which have often severely affected the demand for manufacturing equipment, including laser-based tools and systems. The timing, severity and duration of these market cycles are difficult to predict, which limits our ability to predict our business prospects and financial results in this market and we may not be able to respond effectively to these cycles.

During industry downturns in the past, our revenues from the Microfabrication market declined suddenly and significantly, and this is likely to occur again in the event of industry downturns in the future.

Our revenue growth rate in prior periods may not be indicative of our future performance.

Between 2016 and 2018, we experienced substantial levels of revenue growth. For the six months ended June 30, 2020, our revenues have increased 6.1% compared to the same period of 2019. However, our historical revenue growth rate may not be indicative of future growth, and we may not achieve similar revenue growth rates in future periods. You should not rely on our revenues for any prior quarterly or annual periods as an indication of our future revenues or revenue growth. Our results of operations may vary as a result of a number of factors, including our ability to execute on our business strategy and expand our manufacturing capacity, the general economic conditions and the legal and regulatory environment in the United States, China and globally, as well as other factors that are outside of our control.

We have high levels of fixed costs and inventory levels that may materially adversely affect our gross profits and results of operations in the event that demand for our products declines or we maintain excess inventory levels.

We conduct our own manufacturing operations and have a high fixed cost base, including significant costs for the employees in our manufacturing operations. We may not be able to adjust our production levels or fixed costs quickly enough or sufficiently to adapt to rapidly changing market conditions. Gross profit, in absolute dollars and as a percentage of revenues, is impacted by our volumes, product sales mix, the corresponding absorption of fixed manufacturing overhead expenses, production costs and manufacturing yields. In addition, because we design and manufacture our key components, insufficient demand for our products will subject us to the risks of high inventory carrying costs and increased inventory obsolescence. If our capacity and production levels are not properly sized in relation to expected demand, we may need to record write-downs for excess or obsolete inventory. If these anticipated sales do not occur, we may need to record write-downs for excess inventory.

The markets for our products are highly competitive. If we fail to compete successfully, our business, financial condition, results of operations and growth prospects will be materially adversely affected.

The industries in which we operate have significant price and technological competition. We compete not only with companies providing semiconductor and fiber lasers, but with companies offering conventional laser or non-laser solutions for the applications we target. Some of our competitors are larger and have substantially greater manufacturing, financial and research and development resources and larger installed customer bases than we do. Some of these competitors may receive substantial government subsidies allowing them to compete more aggressively. Certain of these competitors also have higher sales volume than we do, which can enable such competitors to lower the prices of their products. To compete, we may be forced to lower our prices, which could negatively impact our revenues and gross margins. For example, certain of our competitors have substantially reduced the price of their fiber lasers sold in the China market. In some instances, we have reduced the price of our fiber lasers sold in China. It is unclear whether our competitors' price reductions will continue for the foreseeable future; however, the recent decline in the selling price of certain of our current fiber laser product offerings could negatively affect our near-term results of operations. Consolidation in our industry could intensify the competitive pressures that we face. Our competitors worldwide include BWT Beijing Ltd., Coherent, Inc., II-VI Incorporated, IPG Photonics Corporation, Lumentum Holdings Inc., Maxphotonics Co., Ltd., Raycus Fiber Laser Technologies Co. Ltd. and Trumpf GmbH + Co. KG.

We also compete with widely used non-laser production methods, such as plasma cutting, water-jet cutting and resistance welding. We believe that competition will be particularly intense from makers of CO₂, YAG and disc lasers, as makers of these laser solutions may lower their prices in order to maintain market share and have committed significant research and development resources to

pursue opportunities related to these technologies. If manufacturers of these non-laser and legacy laser solutions offer significantly lower prices than we do for our products, customers may choose to purchase their products instead of ours, despite any technical or performance advantage our products may offer.

Our OEM customers' internal production of laser technologies presents additional competitive pressure. To the extent our OEM customers move towards using such in-house technologies, we may need to lower our prices to remain competitive, or otherwise our market share and revenues may be materially adversely affected.

To be competitive, we believe that we will be required to continue to invest significantly in research and development and manufacturing facilities. We may not have sufficient resources to continue to make these investments and we may not be able to make the technological advances or price adjustments necessary to compete successfully. Any failure to compete successfully will materially adversely affect our business, financial condition, results of operations and growth prospects.

Our inability to manage risks associated with our international customers and operations could materially adversely affect our business.

Approximately 56% and 62% of our revenues were derived from sales to customers outside of North America for the six months ended June 30, 2020 and 2019, respectively. We anticipate that foreign revenues, particularly revenues from Asia, will continue to account for a significant portion of our revenues in the foreseeable future. Our products are sold in over 30 countries. Our principal markets outside of North America include China, Japan, South Korea, Thailand and other Asian countries, and Germany, U.K. and other European countries. Our primary offices outside of the United States are in Lohja, Finland; Shanghai, China and Seoul, South Korea. We have substantial tangible assets outside of the United States, particularly in China and Finland.

Our foreign operations and revenues are subject to a number of risks, including the impact of recessions and other economic conditions in economies outside the United States, unexpected changes in regulatory requirements, certification requirements, environmental regulations, reduced protection for intellectual property rights in some countries, potentially adverse tax consequences, political and economic instability, import/export regulations, tariffs and trade barriers, compliance with applicable United States and foreign anti-corruption laws, cultural and management differences, pandemic illness, reliance in some jurisdictions on third-party revenues from channel partners, preference for locally produced products, shipping, or other logistics complications, and longer accounts receivable collection periods.

Our business could also be impacted by international conflicts, terrorist and military activity, civil unrest and pandemic illness, which could cause a slowdown in customer orders, cause customer order cancellations or negatively impact availability of supplies or limit our ability to produce or timely service our installed base of products. Political, economic and monetary instability and changes in governmental regulations or policies, including trade tariffs and protectionism, could materially adversely affect both our ability to effectively operate our foreign offices and the ability of our foreign suppliers to supply us with required materials or services. Any interruption or delay in the supply of our required components, products, materials or services, or our inability to obtain these components, materials, products or services from alternate sources at acceptable prices and within a reasonable amount of time, could impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders.

Our failure to manage the foregoing risks associated with our operations in Finland, China and South Korea and our other existing and potential future international business operations could materially adversely affect our business, financial condition, results of operations and growth prospects.

We have substantial sales and business operations in China, which exposes us to risks inherent in doing business there.

Our business operations in China and our sales to Chinese customers are critical to our success. As of June 30, 2020, we had approximately 580 full-time employees at our Shanghai facility where we have high-volume manufacturing, fiber laser assembly and sales operations. Moreover, approximately 35% of our revenues were derived from China for each of the six months ended June 30, 2020 and 2019. As a result, downturns in the Chinese economy could materially adversely affect our results of operations. The Chinese economy differs from the economies of other developed countries in many respects, including the level of government involvement, level of development, growth rate and control of foreign exchange and allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Despite reforms, the government continues to exercise significant control over China's economic growth by way of the allocation of resources, control over foreign currency-denominated obligations and monetary policy and provision of preferential treatment to particular industries or companies. We cannot predict the future economic policies of the Chinese government or their effect on the regional or global economy and we cannot predict other governments' economic policies toward China. For example, the United States and China have imposed a number of tariffs and other restrictions on items imported or exported between the United States and China, and could impose

additional tariffs or other trade restrictions. These or other events may lead to a significant reduction in demand for our products, which could materially adversely affect our results of operations.

The political, legal and regulatory climate in China, both nationally and regionally, is fluid and unpredictable, and operating in China exposes us to political and legal risks. Our ability to operate in China may be materially adversely affected by changes in Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs or other trade restrictions, environmental regulations, land use rights, intellectual property, currency controls, network security, privacy, employee benefits and overtime policies and other matters. Our operations in China are subject to numerous laws, regulations, rules and specifications relating to human health and safety and the environment. Applicable laws, rules and regulations often lack clarity and it is difficult to predict how any of these laws, rules and regulations will be enforced. If we or our employees or agents violate, or are alleged to have violated, any of these laws, rules and regulations, we or our employees could be subject to civil or criminal penalties, damages or fines, or our employees or agents could be detained, imprisoned or prevented from entering China, any of which could materially adversely affect our results of operations.

In addition, our business in China is subject to audit and financial risks as a result of varying accounting, auditing and financial reporting standards, accountability and protections, including risks related to the lack of access by the Public Company Accounting Oversight Board (United States) (PCAOB) to inspect PCAOB-registered accounting firms.

Tariffs and global trade policies could increase the cost of our products, which could adversely impact the competitiveness of our products and our financial results.

The United States Government has recently imposed new or higher tariffs on specified products imported from China to penalize China for what it characterizes as unfair trade practices and China has responded by imposing new or higher tariffs on specified products imported from the United States. Based on our initial experience with the tariff changes, the new tariffs have a direct impact on our operations and financial results, as we maintain a significant portion of our operations, sales, and manufacturing in China. While there is uncertainty as to the duration of the tariffs or potential future increases, and we are actively taking remedial actions to minimize the financial impact, the tariffs may materially increase the cost of our raw materials and finished goods, and may negatively impact our margins as we may not be able to pass on the additional cost through increasing the prices of our products. Tariffs may cause the depreciation of the RMB currency and a contraction of certain industries that will likely be affected by the tariffs, including the Industrial market. As such, there may be potential decrease in the spending powers of our Chinese customers which may lead to fewer business opportunities and our operation may be negatively impacted. In addition, future actions or escalations by either the United States or China that affect trade relations may cause global economic uncertainty and potentially have a negative impact on our business and we cannot provide any assurances as to whether such actions will occur or the form that they may take.

Significant United Kingdom or European developments stemming from the United Kingdom's decision to withdraw from the European Union could have a material adverse effect on us.

In June 2016, the United Kingdom held a referendum and voted in favor of leaving the European Union, and in March 2017, the government of the United Kingdom formally initiated the withdrawal process. The United Kingdom left the European Union on January 31, 2020 and during the “transition period” ending on December 31, 2020 (extendable for up to two years) the United Kingdom is essentially still treated as a member state of the European Union with the regulatory regime remaining the same across the United Kingdom and the European Union. At the end of the transition period, the trading relationship between the United Kingdom and the European Union will be governed by whatever agreement the two parties can reach by then. On that short timetable the United Kingdom and the European Union are likely to focus on ensuring tariff-free trade, but it is unclear whether there will be any formal regulatory alignment between the United Kingdom and the European Union after the transition period. In the unlikely event that the United Kingdom leaves the European Union without an agreement, the United Kingdom will be completely separated from a regulatory perspective from the European Union immediately upon the exit date.

Negotiations related to the United Kingdom's exit from the European Union, or Brexit, have created political and economic uncertainty, particularly in the United Kingdom and the European Union, and this uncertainty may last for years. Our business in the United Kingdom, the European Union, and worldwide could be affected during this period of uncertainty, and perhaps longer, by the impact of Brexit. There are many ways in which our business could be affected, only some of which we can identify as of the date of this report.

Brexit has caused, and may continue to cause, significant volatility in global financial markets, including in global currency and debt markets. This volatility could cause a slowdown in economic activity in the United Kingdom, Europe or globally, which could adversely affect our operating results and growth prospects. In addition, our business could be negatively affected by new trade agreements between the United Kingdom and other countries, including the United States, and by the possible imposition

of trade or other regulatory barriers in the United Kingdom. These possible negative impacts, and others resulting from Brexit may adversely affect our operating results and growth prospects.

Our manufacturing capacity and operations may not be appropriate for future levels of demand and may materially adversely affect our gross margins.

When market demand increases, we must be able to rapidly and effectively increase our manufacturing capacity to meet increases in customer demand, and if we fail to do so we may lose business to our competitors and our relationships with our customers may be harmed. To maintain our competitive position and to meet anticipated demand for our products, we have invested significantly in the expansion and automation of our manufacturing and operations throughout the world and may continue to do so in the future. If the demand for our products does not increase or if our revenues decrease from current levels, we may have significant excess manufacturing capacity and under-absorption of our fixed costs, which could in turn materially adversely affect our gross margins and profitability.

In connection with any expansion, we may incur cost overruns, construction delays, delays in implementation of automation, labor difficulties or regulatory issues which could cause our capital expenditures to be higher than what we currently anticipate, possibly by a material amount, which would in turn adversely impact our results of operations. Expansion activities can also cause disruptions to existing manufacturing capabilities. Moreover, we may experience higher costs due to yield loss, production inefficiencies and equipment problems until any operational issues associated with the addition of new equipment or opening of new manufacturing facilities are resolved.

We rely on a small number of customers for a significant portion of our revenues, and if we lose any of these customers or they significantly curtail their purchases of our products, our results of operations could be materially adversely affected.

We rely on a few customers for a significant portion of our revenues. In the aggregate, our top ten customers accounted for approximately 60% and 53% of our revenues during the six months ended June 30, 2020 and 2019, respectively. Raytheon Technologies accounted for approximately 13% and 10% of our revenues for the six months ended June 30, 2020 and 2019, respectively. In addition, Quick Laser and the U.S. Government accounted for approximately 12% and 11%, respectively, of our revenues for the six months ended June 30, 2020. We generally do not enter into long-term purchase agreements with our customers that obligate them to purchase our products. Our business is characterized by short-term purchase orders issued by our customers, which are likely to be favorable to those customers. If any of our principal customers discontinues its relationship with us, develops its own products instead of using ours, replaces us as a vendor for certain products or suffers downturns in its business resulting in a cancellation of orders or an inability to place new orders, then our business, financial condition, results of operations and growth prospects could be materially adversely affected.

If we are unable to protect our proprietary technology and intellectual property rights, our competitive position could be harmed and our results of operations could be materially adversely affected.

Our success depends in part upon our ability to obtain, maintain and enforce patents, trade secrets, trademarks and other intellectual property rights and to operate without infringing on or otherwise violating the proprietary rights of others or having third parties infringe, misappropriate or circumvent the rights we own or license. We rely on a variety of intellectual property rights, including patents, copyrights, trademarks, trade secrets, technical know-how and other unpatented proprietary information to protect our products, product development and manufacturing activities from unauthorized copying by third parties.

Our patents do not cover all of our technologies, systems, products and product components and our competitors or others may design around our patented technologies. Some of our know-how or technology is not patented or patentable and constitutes trade secrets. To protect our trade secrets, we have a policy of requiring our employees, consultants, advisors and other collaborators who contribute to or access our material intellectual property to enter into invention assignment and confidentiality agreements. We also rely on customary contractual protections with our suppliers and customers, and we implement security measures intended to protect our trade secrets, know-how or other confidential information. However, we cannot guarantee we have entered into appropriate agreements with all parties that have had access to our trade secrets, know-how or other confidential information. We also cannot assure you that those agreements will provide meaningful protection for our trade secrets, know-how or other confidential information in the event of any unauthorized use or disclosure. Our trade secrets, know-how or other confidential information could be obtained by third parties as a result of breaches of our physical or electronic security systems or our suppliers, employees or consultants could assert rights to our intellectual property.

We have significant international operations and we are subject to foreign laws which differ in many respects from U.S. laws. Effective intellectual property protection may be unavailable or more limited in foreign jurisdictions in which we operate, such as China, relative to those protections available in the United States. Although we typically enter into invention assignment and

confidentiality agreements with our employees who contribute to our material intellectual property to protect our proprietary and confidential information, our ability to enforce such agreements in foreign jurisdictions is uncertain. In the past, certain of our employees have been hired by our competitors. These former employees are contractually prohibited from misappropriating our confidential information, including trade secrets; however, we cannot be certain that such contractual obligations will be honored. While we monitor our competitors' activities for evidence of infringement of our proprietary rights, we cannot be certain that such infringement will be detected. If we pursue litigation to assert our intellectual property rights, an adverse decision in any legal action could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise materially adversely affect our business, financial condition or results of operations.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may have already occurred or may occur in the future. The steps that we take to acquire ownership of our employees' inventions and trade secrets in foreign countries may not have been effective under all such local laws, which could expose us to potential claims or the inability to protect intellectual property developed by our employees. Furthermore, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws in any country in which we operate may materially adversely affect our ability to enforce our trade secret and intellectual property positions. Our failure to identify unauthorized use or otherwise adequately protect our intellectual property could jeopardize our competitive advantage and materially adversely affect our business. Moreover, any litigation in connection with unauthorized use of our intellectual property could be time consuming, and we could be forced to incur significant costs and divert our attention and the efforts of our employees, which could, in turn, result in lower revenues and higher expenses, and we may not be successful in enforcing our intellectual property rights.

Intellectual property claims could result in costly litigation and harm our business.

There has been significant litigation involving intellectual property rights in many technology-based industries, including our own. We continue to face risks and uncertainties in connection with any patent litigation, including the risk that patents issued to others may harm our ability to do business; that there could be existing patents of which we are unaware that could be pertinent to our business; and that it is not possible for us to know whether there are patent applications pending that our products might infringe upon, since patent applications often are not disclosed until a patent is issued or published. Moreover, the frequency with which new patents are granted and the diversity of jurisdictions in which they are granted make it impractical and expensive for us to monitor all patents that may be relevant to our business.

From time to time, we have been notified of allegations and claims that we may be infringing patents or otherwise violating intellectual property rights owned by third parties. In the future, we may be a party to litigation as a result of an alleged infringement, misappropriation, or other violation of others' intellectual property, whether through direct claims or by way of indemnification claims of our customers or suppliers. If any pending or future intellectual property-related litigation proceedings result in an adverse outcome then we could be required to:

- cease the manufacture, use or sale of the infringing products, processes or technology;
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products, processes or technology;
- license technology from the party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- cross-license our technology to a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; or
- pay substantial damages to our direct or indirect customers to cause our end users to discontinue their use of, or replace, infringing products with non-infringing products.

In addition, intellectual property lawsuits can be brought by third parties against our customers and end-users that incorporate our products into their systems or processes. Because we generally indemnify customers against third-party infringement claims relating to our products, we may incur liabilities in connection with lawsuits against our customers. Any such lawsuits, whether or not they have merit, could be time-consuming to defend, damage our reputation and result in substantial and unanticipated costs.

Having to defend any such lawsuits, and any adverse consequences that might arise, could materially adversely affect our business, financial condition, results of operations and growth prospects.

If we are unable to develop new products, applications and end-markets for our high-performance lasers and increase our market share in existing applications, our business, financial condition, results of operations and growth prospects will be materially adversely affected.

Any future success will depend in part on our ability to continue to generate sales of semiconductor lasers and fiber lasers in applications where legacy lasers have been used, or in new and developing markets and applications for lasers where they have

not been used previously. As semiconductor and fiber lasers reach higher levels of penetration in core materials processing applications, the development of new applications, end markets and products outside our core applications becomes more important to our growth.

Our current and potential customers may have substantial investment in, and know-how related to, their existing laser and non-laser technologies. They may perceive risks relating to the reliability, quality, usefulness and profitability of integrating semiconductor lasers or fiber lasers in their systems when compared to other laser or non-laser technologies available in the market or that they manufacture themselves. Although we believe that semiconductor lasers and fiber lasers generally exhibit superior performance compared to other lasers or tools, customers may be reluctant to change from incumbent suppliers or cease using their own solutions, or we may miss the design and procurement cycles of our customers. Many of our target markets, such as Industrial and Aerospace and Defense, have historically been slow to adopt new technologies. These markets often require long testing and qualification periods or lengthy government approval processes before adopting new technologies.

Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing and coordinate our efforts with those of our suppliers to achieve increased production volume rapidly. If we are unable to implement our strategy to develop new applications and end markets for our products or develop new products, our business, financial condition, results of operations and growth prospects could be materially adversely affected. In addition, any newly developed or enhanced products may not achieve market acceptance or may be rendered obsolete or less competitive by the introduction of new products by other companies.

Fluctuations in our quarterly results of operations may increase the volatility of our stock price and may be difficult to predict.

We have experienced, and expect to continue to experience, fluctuations in our quarterly results of operations. We believe that fluctuations in quarterly results may cause the market price of our common stock to increase or decrease, perhaps substantially. Factors which have had or may in the future have an influence on our results of operations in a particular quarter include:

- the increase, decrease, cancellation or rescheduling of significant customer orders;
- declines in selling prices for our products;
- the impact of the COVID-19 pandemic and other public health crises, including on macroeconomic conditions and our business, results of operations and financial condition;
- government-mandated quarantines or closures applicable to our facilities or the facilities of our customers or suppliers;
- delays in our product-shipment timing, obtaining licenses or other import/export approvals, customer or end-user sales or deployment cycles, or work performed under development contracts;
- seasonality attributable to different purchasing patterns and levels of activity throughout the year in the areas where we operate;
- the impact of new acquisitions and the success of our integration efforts;
- the timing of revenue recognition based on the installation or acceptance of certain products shipped to our customers;
- timing variability in product introductions, enhancements, services and technologies by us and our competitors and market acceptance of these new or enhanced products, services and technologies;
- different capital expenditure and budget cycles for our customers, which affect the timing of their spending;
- our ability to obtain export licenses for our products on a timely basis or at all;
- changes in tariffs imposed by the U.S., China and other foreign governments;
- the rate at which our present and future customers and end users adopt our technologies;
- the gain or loss of a key customer;
- product or customer mix;
- competitive pricing pressures and new market entrants;
- our ability to design, manufacture and introduce new products on a cost-effective and timely basis;
- our ability to manage our inventory levels and any write-downs for excess or obsolete inventory;
- our ability to collect outstanding accounts receivable balances;
- changes in the amount and timing of our operating costs, including those related to the expansion of our business, operations and infrastructure;
- impairment of values for goodwill, intangibles and other long-lived assets;
- foreign currency fluctuations;
- changes in jurisdictional income mix and tax rules and regulations in countries where we operate; and
- economic and market conditions in a particular geography or country.

A substantial portion of our operating expenses are fixed for the short-term, and as a result, fluctuations in revenues or unanticipated expenses can have a material and immediate impact on our profitability. In addition, we often recognize a substantial portion of our revenues in the last month of each fiscal quarter. Our expenses for any given quarter are typically based on expected revenues, and if revenues are below expectations in any given quarter, the adverse impact of the shortfall on our results of operations may

be magnified by our inability to adjust spending quickly enough to compensate for the shortfall. We also base our manufacturing on our forecasted product mix for the quarter. If the actual product mix varies significantly from our forecast, we may not be able to fill some orders during that quarter, which would result in delays in the shipment of our products. Accordingly, variations in timing of sales, particularly for our higher priced, higher margin products, can cause significant fluctuations in quarterly results of operations.

Due to these and other factors, particularly varying product mix from quarter to quarter, we believe that quarter-to-quarter and year-to-year comparisons of our historical results of operations may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our results of operations in future quarters and years may be below public market analysts' or investors' expectations, which would likely cause the price of our stock to fall, perhaps significantly. In addition, over the past several years, U.S. and global equity markets have experienced significant price and volume fluctuations that have affected the stock prices of many technology companies both in and outside our industry. There has not always been a direct correlation between this volatility and the performance of particular companies subject to these stock price fluctuations. These factors, as well as general economic and political conditions or investors' concerns regarding the credibility of corporate financial statements, may materially adversely affect the market price of our stock in the future.

Products in the laser industry are experiencing declining average selling prices, and any future success depends in part on our ability to increase our volumes and decrease our costs to offset potential declines in the average selling prices of our products.

Products in the laser industries generally, and our products specifically, are experiencing and may in the future continue to experience a significant decline in average selling prices, or ASPs, on maturing products as a result of increased competition and price pressures from customers. As competing products become more widely available, the ASPs of our products may decrease. Due to the fixed cost of production, the average cost per unit of our products typically declines as our production volumes rise. For this reason, we may decide to offer products at ASPs that result in low initial gross margins to us with an intention to drive sales and production volumes higher, in turn lowering our average cost per unit. Because of these factors, we have experienced and we may continue to experience fluctuations in our results of operations on a quarterly or annual basis. If the ASPs of our products decline and we are unable to increase our unit volumes, introduce new or enhanced products with higher ASPs or reduce manufacturing costs to offset anticipated decreases in the prices of our existing products, our gross margins could decline, which in turn could materially adversely affect our business, financial condition, results of operations and growth prospects.

We participate in markets that are subject to rapid technological change and require significant research and development expenses to develop and maintain products that are able to achieve market acceptance.

The markets for our products are characterized by rapid technological change, frequent product introductions, substantial capital investment, volatility of product supply and demand, changing customer requirements and evolving industry standards. Our future performance will depend in part on the successful development, introduction and market acceptance of new and enhanced products that address these changes as well as current and potential customer requirements. We expect that new technologies will emerge as competition and our customers' need for higher and more cost-effective tools increase. The introduction of new and enhanced products may cause our customers to defer or cancel orders for existing products. To the extent customers defer or cancel orders for existing products due to a slowdown in demand or in the expectation of a new product release, or if there is any delay in development or introduction of our new products or enhancements of our products, our business, financial condition, results of operations and growth prospects would be materially adversely affected. We also may not be able to develop the underlying core technologies necessary to create new products and enhancements, or to license these technologies from third parties. Product development delays may result from numerous factors, including:

- changing product specifications and customer requirements;
- unanticipated engineering complexities;
- expense reduction measures we have implemented, and others we may implement, to conserve our cash and attempt to sustain profitability;
- difficulties in hiring and retaining necessary technical personnel;
- difficulties in reallocating engineering resources and overcoming resource limitations; and
- changing market or competitive product requirements.

The development of new, technologically advanced products is a complex and uncertain process that requires the accurate prediction of technological and market trends, as well as the investment of significant research and development expenses. Further, we typically invest substantial resources in advance of material sales of our products to our customers. Our research and development costs were \$18.0 million and \$12.9 million for the six months ended June 30, 2020 and 2019, respectively. We cannot assure you that our expenditures for research and development will result in the introduction of new products or, if such products are introduced, that those products will achieve sufficient market acceptance or generate revenues to offset the costs of development. Ramping of production capacity also entails risks of delays which can limit our ability to realize the full benefit of the new product introduction.

We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully, if at all, or on a timely basis. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards. Many of these factors are beyond our control. Any failure to respond to technological change would materially adversely affect our business, financial condition, results of operations and growth prospects.

Additionally, our product offerings may become obsolete given the frequent introduction of alternative technologies. In the event either our customers or our products fail to gain and maintain market acceptance, it would likely materially adversely affect our business, financial condition, results of operations and growth prospects.

Reliance on customers in the Aerospace and Defense industry for a significant portion of our revenues could materially adversely affect our business, financial condition, results of operations and growth prospects.

For the six months ended June 30, 2020 and 2019, we derived approximately 34% and 20%, respectively, of our revenues from customers in the Aerospace and Defense industry. From time to time, we have experienced declining Aerospace and Defense-related revenues. The Aerospace and Defense market is largely dependent upon government budgets, in particular defense budgets, which are driven by numerous factors, including geopolitical events, macroeconomic conditions and the ability of the U.S. government to enact relevant legislation. As a result, our future revenues are subject in part to the uncertainties of governmental budgeting and appropriations and national defense policies and priorities, constraints of the budgetary process and timing and potential changes to these policies and priorities. Future spending levels are subject to a wide range of outcomes, depending on Congressional action, all of which are beyond our control. Moreover, no assurance can be given that an increase in defense spending will be allocated to programs that would benefit our business.

Many of our customers in the defense industry are subcontractors that must negotiate our proposals with the U.S. government. Our continuing relationship and the ability of these customers to pay for our products is dependent on the U.S. government's decision to accept or reject our customers' terms, which can be delayed for a substantial period of time and is largely outside of our control. Such delays could result in decreased revenues and could materially adversely harm our results of operations in any given period.

Our agreements with the U.S. government and suppliers to the U.S. government subject us to risks.

We must comply with and are affected by laws and regulations relating to the award, administration and performance of U.S. government contracts. The U.S. government contracting party may require us to increase production of certain solutions sold to the U.S. government due to changes in U.S. national security strategy and/or priorities or other reasons, in which case we may be required to decrease production of other products or sales to other customers to meet the requirements of the U.S. government. In addition, the U.S. government routinely retains rights to intellectual property developed in connection with a government contract. The U.S. government could exercise these rights in certain circumstances in the future, which could have the effect of decreasing the benefit we are able to realize commercially from such intellectual property.

U.S. government agencies, including the Defense Contract Audit Agency, the Defense Contract Management Agency and various agency Inspectors General, routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, its cost structure, its business systems and compliance with applicable laws, regulations and standards. The U.S. government has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate. Additionally, any costs found to be misclassified may be subject to repayment. We have unaudited and unsettled incurred cost claims related to past years, which places risk on our ability to issue final billings on contracts for which authorized and appropriated funds may be expiring.

If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including reductions of the value of contracts, contract modifications or terminations, forfeiture of profits, suspension of payments, penalties, fines and suspension, or prohibition from doing business with the U.S. government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us. Similar government oversight exists in most other countries where we conduct business. Any such imposition of penalties, or the loss of such government contracts, could materially adversely affect our business, financial condition, results of operations and growth prospects.

We are exposed to foreign currency risk, which may materially adversely affect our revenues, cost of revenues and operating margins and could result in exchange losses.

We conduct our business and incur costs in the local currency of most countries in which we operate. For the six months ended June 30, 2020 and 2019, our revenues outside North America represented approximately 56% and 62%, respectively, of our revenues. We incur currency transaction risk whenever one or more of our operating subsidiaries enter into a transaction using currencies different than their functional currency. Changes in exchange rates can also affect our results of operations when the

value of revenues and expenses of foreign subsidiaries are translated to U.S. dollars. We do not actively hedge our foreign currency exposure and we cannot accurately predict the impact of future exchange rate fluctuations on our results of operations. Further, given the volatility of exchange rates, we may not be able to effectively manage our currency risks, and any volatility in currency exchange rates may increase the price of our products in local currency to our foreign customers or increase the manufacturing cost of our products, which could decrease demand for our products in such markets. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and growth prospects.

The long sales cycles for our products may cause us to incur significant expenses without offsetting revenues.

Our products represent a large investment for our customers and they typically expend significant effort in evaluating, testing and qualifying our products before making a decision to purchase them, resulting in a lengthy initial sales cycle. While our customers are evaluating our products and before they place an order with us, we may incur substantial sales and marketing and research and development expenses to customize our products to the customers' needs. We may also expend significant management efforts, increase manufacturing capacity and order long lead-time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. As a result, these long sales cycles may cause us to incur significant expenses without receiving revenues to offset such expenses soon thereafter or at all. This, in turn, can materially adversely affect our business, financial condition, our results of operations and growth prospects.

Because we lack long-term purchase commitments from our customers, our revenues can be difficult to predict, which could lead to excess or obsolete inventory and materially adversely affect our results of operations.

We generally do not enter into long-term agreements with our customers obligating them to purchase our products. Our business is characterized by short-term purchase orders and shipment schedules and, in some cases, orders may be canceled or delayed without penalty. As a result, it is difficult to forecast our revenues and to determine the appropriate levels of inventory required to meet future demand. This could lead to increased inventory levels and increased carrying costs and risk of excess or obsolete inventory due to unanticipated reductions in purchases by our customers. Write-downs have been recorded as a result of changes in demand or uncertainties related to the recoverability of the value of inventories due to technological and product changes. If we are unable to accurately forecast the demand for our products, fail to accurately forecast the timing of such demand, or are unable to consistently negotiate acceptable purchase order terms with customers, we could incur significant expenses, and our business, financial condition, results of operations and growth prospects may be materially adversely affected.

If we fail to effectively manage our growth or, alternatively, our spending during downturns, our business could be disrupted, which could materially adversely affect our results of operations.

Growth in revenues, combined with the challenges of managing geographically dispersed operations, can place a significant strain on our management systems and resources, and our anticipated growth in future operations could continue to place such a strain. The failure to effectively manage our growth could disrupt our business and materially adversely affect our results of operations. Our ability to successfully offer our products and implement our business plan in evolving markets requires an effective planning and management process. Even if executed successfully, our expansion may not deliver the anticipated increase in revenues and other benefits to compensate for the expenses incurred. This could materially adversely affect our business, financial condition, results of operations and growth prospects. In economic downturns, we must effectively manage our spending and operations to ensure that our competitive position during the downturn, as well as our future opportunities when the economy improves, remains intact. The failure to effectively manage our spending and operations could disrupt our business and materially adversely affect our results of operations.

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Our market opportunity estimates and growth forecasts are subject to significant uncertainty, even more so in light of the current COVID-19 pandemic, and are based on assumptions and estimates that may not prove to be accurate. Similarly, our estimates regarding the continued reduction in cost per brilliant watt and increase in power output of semiconductor lasers is based on assumptions and prior experience, and may not continue at the same rate, which could materially adversely affect the growth of high-power fiber lasers generally, and our growth specifically. Even if the markets in which we compete meet our size estimates and growth forecasts, and even if semiconductor lasers continue to become less expensive and more powerful, our business could fail to grow for a variety of reasons, which would adversely affect our results of operations.

We depend on internal production and outside single or limited-source suppliers for many of our key components and raw materials, including cutting-edge optics and materials. Any interruption in the supply of these key components and raw materials could materially adversely affect our business, financial condition, results of operations and growth prospects.

We rely exclusively on our own production capabilities to manufacture certain of our key components, such as semiconductor lasers, specialty optical fibers and optical components. Certain of our components, such as our semiconductor lasers, which are manufactured at our Vancouver, Washington facility, and our active fibers, which are manufactured at our Lohja, Finland facility, rely on processes and equipment that cannot be easily moved or replaced. If our manufacturing activities were obstructed or hampered significantly at these, or our other facilities, it could take a considerable length of time, at an increased cost, for us to resume manufacturing, which could materially harm our business and results of operations.

Also, we purchase certain raw materials and components, which are key elements to manufacture our products, from single- or limited-source suppliers. We generally do not have guaranteed supply arrangements with our suppliers. Some of our suppliers are relatively small private companies that may discontinue their operations at any time and may be particularly susceptible to prevailing economic conditions. Some of our suppliers are also our competitors. Our key suppliers may not have the ability to increase their production in line with our customers' demands. This can become acute during times of high growth in our customers' businesses. As a result, we experienced, and may in the future experience, longer lead times or delays in fulfillment of our orders. Furthermore, other than our current suppliers, there may be a limited number of entities from which we could obtain these supplies. We do not anticipate that we would be able to purchase these materials that we require in a short period of time or at the same cost from other sources in commercial quantities or that have our required performance specifications. In addition, if quality issues arise with these outsourced materials and go undetected by us, the use of such defective materials in our products could compromise their quality and harm our reputation.

For certain long lead-time supplies or in order to lock in pricing, we may be obligated to place purchase orders which are not cancelable or otherwise assume liability for a large amount of the ordered supplies, which limits our ability to adjust down our inventory liability in the event of market downturns or other customer cancellations or rescheduling of their purchase orders for our products. Some of our products require designs and specifications which are at the cutting-edge of available technologies. Our and our customers' designs and specifications frequently change to meet rapidly evolving market demands. Accordingly, certain of our products require components and supplies which may be technologically difficult and unpredictable to manufacture. By their very nature, these types of components may only be available by a single supplier. These characteristics place further pressure on the timely delivery of such components. Any interruption or delay in the supply of any of these components or materials, or the inability to obtain these components and materials from alternate sources at acceptable prices and within a reasonable amount of time, could materially adversely affect our ability to meet customer orders. If our suppliers face financial or other difficulties, do not maintain sufficient inventory on hand or if there are significant changes in demand for the components and materials we obtain from them, they could limit the availability of these components and materials to us. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and growth prospects.

We depend on our OEM customers and system integrators to incorporate our products into their systems.

Our revenues depend in part on our ability to maintain existing and secure new OEM customers. Our revenues also depend in part upon the ability of our current and potential OEM customers and system integrators to incorporate our products into their systems, and to sell such systems successfully. The commercial success of these systems depends to a substantial degree on the efforts of these OEM customers and system integrators to develop and market products that incorporate our technologies. Relationships and experience with traditional laser makers, limited marketing resources, reluctance to invest in research and development and other factors affecting these OEM customers and third-party system integrators could have a substantial impact upon demand for our products, and in turn upon our revenues and financial results. If OEM customers or integrators are not able to adapt existing tools or develop new systems to take advantage of the features and benefits of lasers, or if they perceive us to be an actual or potential competitor, then the opportunities to expand our revenues and increase our margins may be severely limited or delayed. In addition, some of our OEM customers are developing their own laser sources. If they are successful, this may reduce our revenues from these customers.

Failure to effectively maintain and expand our field service and support organization could materially adversely affect our business, financial condition, results of operations and growth prospects.

It is important for us to provide rapid, responsive service directly to our customers throughout the world and to maintain and expand our own personnel resources to provide these services. Any actual or perceived lack of adequate field service in the locations where we sell or try to sell our products may negatively impact our sales efforts and, consequently, our revenues. This requires us to recruit and train additional qualified field service and support personnel as well as maintain effective and highly trained organizations that can provide service to our customers in various countries. We may not be able to attract and train additional qualified personnel to expand our direct support operations successfully, in a cost-effective manner or at all. We also may not be able to find and engage additional qualified third-party resources to supplement and enhance our direct support operations. Further, we may incur significantly higher costs in providing these field and support services if competition for or unavailability of these services is limited. Failure to implement and manage our support operation effectively could materially adversely affect our relationships with our customers, as well as our business, financial condition, results of operations and growth prospects.

Our products could contain defects, which may reduce sales of those products, harm market acceptance of our high-performance laser products or result in claims against us.

The manufacture of our high-performance lasers involves highly complex and precise processes. Despite testing by us and our customers, errors have been found in our products and may be found in the future. In addition, some of our products are combined with products from other vendors, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. Our products are typically sold with warranty provisions that require us to remedy deficiencies in quality or performance over a specified period of time at no cost to our customers. Reserves for estimated warranty claims are recorded during the period of sale. The determination of such reserves requires us to make estimates of failure rates and expected costs to repair or replace the products under warranty. We typically establish warranty reserves based on historical warranty costs for each product line. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to cost of revenues may be required in future periods, which could materially adversely affect our results of operations. These defects may cause us to incur significant warranty, support and repair costs, incur additional costs related to a recall, divert the attention of our engineering personnel from our product development efforts and harm our relationships with our customers. These problems could result in, among other things, loss of revenues or a delay in revenue recognition, loss of market share, harm to our reputation or a delay or loss of market acceptance of our laser products. Defects, integration issues or other performance problems in our products could also result in personal injury or financial or other damages to our customers, which in turn could damage market acceptance of our products. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, could be time-consuming and costly to defend, and could harm our reputation. We cannot assure investors that our product liability insurance would adequately protect our assets from the financial impact of defending a product liability claim. Any product liability claim brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing insurance coverage in the future.

We may experience lower than expected manufacturing yields, which would adversely affect our gross margins.

The manufacture of semiconductor lasers and their packaging is a highly complex process. Manufacturers often encounter difficulties in achieving acceptable product yields from laser and packaging operations. We have from time to time experienced lower than anticipated manufacturing yields for our lasers. If we do not achieve planned yields, our product costs could increase, resulting in lower gross margins, and key component availability would decrease, which could result in delays in fulfilling customer orders or rolling out new product lines.

A breach of our information technology and security systems could materially adversely affect our business.

We use information technology and security systems to maintain our facility's physical security and to protect proprietary and confidential information, including that of our customers, suppliers and employees. Accidental or willful security breaches or other unauthorized access to our facilities or information systems, or viruses, loggers, or other malware code in our data or software, could compromise this information. The consequences of such loss and possible misuse of our proprietary and confidential information could include, among other things, unfavorable publicity, damage to our reputation, difficulty marketing our products, customer allegations of breach-of-contract, litigation by affected parties and possible financial liabilities for damages, any of which could materially adversely affect our business, financial condition, reputation and relationships with customers and partners. We also rely on a number of third-party "cloud-based" providers of corporate infrastructure services relating to, among other things, human resources, electronic communication services and some financial functions, and we are therefore dependent on the security systems of these providers. Any security breaches or other unauthorized access to our service-providers' systems or viruses, loggers or other malware code in their data or software could expose us to information loss and misappropriation of confidential information. Because the techniques used to obtain unauthorized access to or sabotage security systems change frequently and are often not recognized until after an attack, we may be unable to anticipate the techniques or implement adequate preventative measures, thereby exposing us to material adverse effects on our business, financial condition, results of operations and growth prospects. Moreover, the increase in remote working during the COVID-19 pandemic may also result in heightened privacy, data security and fraud risks, and our understanding of applicable legal and regulatory requirements, as well as the latest guidance from regulatory authorities in connection with the COVID-19 pandemic, may be subject to legal or regulatory challenge, particularly as regulatory guidance evolves in response to future developments.

Our business could be materially adversely affected if one or more members of our executive management team or key personnel departed.

Any future success is substantially dependent on the continued contributions of our executive officers, including Scott Keeney, our chairman of the board, president and chief executive officer. We are also dependent on key technologists, and other key engineering, sales, marketing, manufacturing and support personnel, any of whom may leave, which could harm our business and reputation in the market. Our business requires engineering staff with experience in several disciplines, including semiconductor

physics, chemistry, material science, electrical engineering, optical engineering, and mechanical engineering. We will need to continue to recruit and retain highly skilled engineers for certain functions.

Any future success also depends in part on our ability to identify, attract, hire, train, retain and motivate highly skilled research and development, managerial, operations, sales, marketing and customer service personnel. We are continually recruiting such personnel. However, competition for such personnel can be strong and we can provide no assurance that we will be successful in attracting or retaining such personnel now or in the future. In addition, particularly in the high-technology industry, the value of stock options, restricted stock units, grants or other share-based compensation is an important element in the retention of employees. Declines in the value of our common stock could materially adversely affect our ability to retain employees and we may have to take additional steps to make the equity component of our compensation packages more appealing to attract and retain employees. These steps could result in dilution to stockholders.

If we fail to attract, integrate and retain the necessary personnel, our ability to extend and maintain our scientific expertise and grow our business could suffer significantly. The loss of any key employee, the failure of any key employee to adequately perform in his or her current position, our inability to attract, train and retain skilled employees as needed or the inability of our key employees to expand, train and manage our employee base as needed, could materially adversely affect our business, financial condition, results of operations and growth prospects.

We are subject to regulatory compliance requirements, including Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to maintain an effective system of internal controls we may not be able to accurately report our consolidated financial results or prevent fraud.

We are subject to the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of internal controls over financial reporting. However, our independent registered public accounting firm will not be required to report on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until our annual report on Form 10-K for the fiscal year ending December 31, 2020. Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud.

Our testing of key controls over financial reporting, or the subsequent testing by our independent registered public accounting firm required under the Sarbanes-Oxley Act for the fiscal year ending December 31, 2020, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock would likely decline and we could be subject to lawsuits, sanctions or investigations by regulatory authorities, which would require additional financial and management resources.

In addition, the Sarbanes-Oxley Act requirements may be modified, supplemented or amended from time to time. Implementing the changes may take significant time and may require additional employee compliance training. We or our independent registered public accounting firm may discover internal controls that need improvement. A discovery of a material weakness, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price. Any inability to provide reliable financial reports or prevent fraud could harm our business. We cannot assure you that we will be able to fully comply with the requirements of the Sarbanes-Oxley Act or that management or our independent registered public accounting firm will conclude that our internal controls are effective in future periods. Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated operating results and harm our reputation.

In addition, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the Nasdaq Stock Market, and other applicable securities rules and regulations. As a consequence, and particularly after we cease to be an "emerging growth company" at the end of the fiscal year ending December 31, 2020, we expect to continue to incur legal, accounting and other expenses. We also anticipate that we will continue to incur costs associated with corporate governance requirements, including requirements of the SEC and the Nasdaq Stock Market. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect that these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Our operations are conducted in a limited number of locations. Any disruption at our facilities could delay revenues or increase our expenses.

An earthquake, fire, flood or other natural or manmade disaster could disable our facilities, disrupt operations or cause catastrophic losses. Our major manufacturing and research and development facilities are located in Vancouver, Washington; Hillsboro, Oregon; Longmont, Colorado; Shanghai, China; and Lohja, Finland. Some of our facilities, such as our headquarters and key manufacturing and development facilities in Vancouver, Washington, are located in areas with a known history of seismic and volcanic activity. We also have facilities in areas with a known history of flooding, such as our location in Shanghai, China, and there is a risk of flooding and snowstorms at our location in Lohja, Finland. Moreover, all of our facilities have been impacted by the COVID-19 pandemic and related social distancing measures. A loss at any of these or other of our or our suppliers' facilities could disrupt operations, delay production and shipments, reduce revenues and generate potentially significant expenses to repair or replace damaged facilities. The insurance we maintain against earthquakes, floods and other natural or manmade disasters may not be adequate to cover our losses in any particular case.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of certain products, technologies and software. We must export our products in compliance with U.S. export controls, including the Commerce Department's Export Administration Regulations, the State Department's International Traffic in Arms Regulations, or ITAR, and various economic and trade sanctions established by the Treasury Department's Office of Foreign Assets Controls. We may not always be successful in obtaining necessary export licenses, and our failure to obtain required import or export approval for our products or limitations on our ability to export or sell our products imposed by these laws may harm our international and domestic revenues. Noncompliance with these laws could have negative consequences, including government investigations, penalties and reputational harm.

In addition, compliance with the directives of the Directorate of Defense Trade Controls, or DDTC, may result in substantial expenses and diversion of management attention. Any failure to adequately address the directives of DDTC could result in civil fines or suspension or loss of our export privileges, any of which could materially adversely affect our business, financial condition, results of operations and growth prospects.

Changes in our products or changes in export, import and economic sanctions laws and regulations may delay our introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to or from certain countries altogether. In addition to the tariffs imposed by the U.S. Government on certain items imported from China, it is possible that additional sanctions or restrictions may be imposed by the United States on items imported into the United States from China. Similarly, in addition to the tariffs imposed by China on certain items imported from the United States, it is possible that additional sanctions or restrictions may be imposed by China on items imported into China from the United States. Any such measures could further adversely affect our ability to sell our products to existing or potential customers and harm our ability to compete internationally and grow our business. Any change in export or import regulations or legislation, shift or change in enforcement, or change in the countries, persons or technologies targeted by these regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. In such event, our business, financial condition, results of operations and growth prospects could be materially adversely affected.

We are subject to anti-corruption, anti-bribery, anti-money laundering and similar laws, and non-compliance with such laws can subject us to criminal penalties or significant fines and harm our business and reputation.

We are subject to anti-corruption and anti-bribery and similar laws, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act 2010, the Proceeds of Crime Act 2002 and possibly other anti-corruption, anti-bribery and anti-money laundering laws in countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly and prohibit companies and their employees and agents from promising, authorizing, making, offering, soliciting or accepting improper payments or other benefits to or from government officials and others in the public and private sectors. We can be held liable for the corrupt or other illegal activities of our employees, representatives, contractors, business partners and agents, even if we do not explicitly authorize or have actual knowledge of such activities. China also strictly prohibits bribery of government officials and commercial bribery. Our operations in China create the risk of unauthorized payments or offers of payments by our employees, consultants, sales agents or distributors, even though they may not always be subject to our control.

While we have policies and procedures in this area, we cannot guarantee that improprieties committed by our employees or third parties will not occur. Noncompliance with these laws could subject us to investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension or debarment from contracting with certain persons, the loss of export privileges, whistleblower complaints, reputational harm, adverse media coverage and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, financial condition, results of operations and growth prospects could be materially adversely affected. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense and compliance costs and other professional fees. In certain cases, enforcement authorities may even require us to appoint an independent compliance monitor, which can result in added costs and administrative burdens. Any investigations, actions or sanctions or other previously mentioned harm could materially adversely affect our business, financial condition, results of operations and growth prospects.

Changes in U.S. or foreign tax law may materially adversely affect our business, financial condition, results of operations and growth prospects.

The Tax Cuts and Jobs Act, or 2017 Tax Act, brought about extensive changes to the U.S. corporate tax system. The 2017 Tax Act includes changes that reduce U.S. corporate tax rates, change how U.S. multinational corporations, like us, are taxed on international earnings, repeal domestic manufacturing deduction, accelerate tax revenue recognition, allow capitalization of research and development expenditures, place additional limitations on executive compensation and limitations on the deductibility of interest. Due to the large and expanding scale of our international business activities, any changes in the U.S. or foreign taxation of such activities may increase our worldwide effective tax rate and the amount of taxes we pay and seriously harm our business.

Additionally, under the applicable laws and regulations in China, arrangements and transactions among related parties may be subject to audit or challenge by the Chinese tax authorities. We would be subject to adverse tax consequences if the Chinese tax authorities were to determine that the transactions with or between our subsidiaries were not executed on an arm's-length basis, and as a result the Chinese tax authorities could require that our Chinese subsidiaries adjust their taxable income upward for Chinese tax purposes. Such an adjustment could materially adversely affect us by increasing our tax expenses.

We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in our historical income tax provisions and accruals, which could materially adversely affect our business, financial condition, results of operations and growth prospects.

We could be subject to additional income tax liabilities.

We are subject to income taxes in the United States and certain other foreign jurisdictions. Judgment is required in evaluating our worldwide provision for income taxes. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations. We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made.

Our international operations subject us to potential adverse tax consequences.

We generally conduct our international operations through wholly-owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. We believe that our financial statements reflect adequate reserves to cover such a contingency, but there can be no assurances in that regard.

Our reported financial results may be materially adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States, or GAAP, are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

We are subject to various environmental laws and regulations that could impose substantial costs upon us and may materially adversely affect our business, financial condition, results of operations and growth prospects.

We are subject to a variety of federal, state, local and foreign environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process or requiring design changes or recycling of products we manufacture. We could incur costs, fines and civil or criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes or incur other significant expenses in order to remain in compliance with such laws and regulations. At this time, we do not believe the costs to maintain compliance with current environmental laws to be material. If such costs were to become material in the future, whether due to unanticipated changes in environmental laws or their interpretations, unanticipated changes in our operations or other unanticipated changes, we may be required to dedicate additional staff or financial resources in order to maintain compliance. There can be no assurance that violations of environmental laws or regulations will not occur in the future as a result of the lack of, or failure to obtain, permits, human error, accident, equipment failure or other causes.

Results of future litigation could materially adversely affect our business, financial condition, results of operations and growth prospects.

From time to time, we have been subject to litigation. The outcome of any litigation, regardless of its merits, is inherently uncertain. Future litigation could result in significant damages payable by us, and could harm our reputation. Even if we are successful in our defense, such litigation could still result in a diversion of management's attention and our resources and we may be required to incur significant expenses defending against these claims. We cannot predict our future commitments with respect to any matters encountered in the future, or their eventual outcome. Where we can make a reasonable estimate of the liability relating to pending litigation and determine that it is probable, we record a related liability. As additional information becomes available, we assess the potential liability and revise estimates as appropriate. However, because of uncertainties relating to litigation, the amount of our estimates could be wrong. Any adverse determination related to litigation could require us to change our technology or our business practices, pay monetary damages or fines, or enter into royalty or licensing arrangements, which could materially adversely affect our cash flows, harm our reputation, or otherwise materially adversely affect our business, financial condition, results of operations and growth prospects.

The outcome of any government inquiries and investigations involving our business is unpredictable and an adverse decision in any such matter could materially adversely affect our business, financial condition, results of operations and growth prospects.

We have been involved in certain disputes and have also received requests for information from government authorities. For example, we entered into a civil settlement agreement with the U.S. Department of Justice in March 2015 concerning a matter related to our eligibility for certain contracts awarded to us under the Small Business Innovation Research, or SBIR, Program. We have also received information requests from the Criminal Division of the U.S. Attorney's Office related to our SBIR eligibility and the Criminal Division has interviewed certain of our current and past employees. We have responded to the U.S. Attorney's requests with a production of documents. Although we have not received further inquiries from the Criminal Division since 2015, the Criminal Division has contacted certain of our former employees as recently as June 2017 and the inquiry may be ongoing, and we do not know when it will conclude or whether the Criminal Division will pursue claims against us or our employees. If the Criminal Division or a federal court determines that we or our employees are criminally liable, our business, financial condition, results of operations and growth prospects could be materially adversely affected.

Our growth is dependent, in part, on the successful integration of acquired businesses. Future acquisitions could result in operating difficulties and may materially adversely affect our business, financial condition, results of operations and growth prospects.

On November 14, 2019, we acquired Nutronics, Inc. and on July 30, 2020, we acquired OPI Photonics, S.r.l. (OPI). The successful integration of Nutronics and OPI depends on the realization of anticipated efficiencies and synergies. If we are unable to successfully integrate Nutronics and OPI, or realize growth, synergies and efficiencies that were expected when determining the respective transaction consideration, then goodwill and other intangible assets acquired may be considered impaired and result in an adverse impact on our business, financial condition, results of operations and growth prospects.

We have evaluated, and expect to continue evaluating, other potential strategic transactions, and we may pursue one or more transactions, including acquisitions. We have limited experience executing acquisitions. Integrating an acquired company, business or technology may create unforeseen operating difficulties and expenditures. If we fail to successfully integrate our acquisitions, or the people or technologies associated with those acquisitions, into our company, the results of operations of the combined company could be adversely affected. Any integration process will require significant time and resources, require significant attention from management, and disrupt the ordinary functioning of our business, and we may not be able to manage the process successfully, which could adversely affect our business, results of operations, and financial condition.

We may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock. The sale of equity to finance any such acquisitions could result in dilution to our stockholders. If we incur more debt, it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to flexibly operate our business.

Our debt obligations contain restrictions that impact our business and expose us to risks that could materially adversely affect our liquidity and financial condition.

In September 2018, we entered into an amended and restated loan facility, or loan facility, with Pacific Western Bank, as lender. This loan facility, as amended in November 2019, imposes certain covenants and restrictions on our business and our ability to obtain additional financing. As of June 30, 2020, we had \$15.0 million outstanding principal amount under the revolving loan facility.

Among other things, our loan facility requires the lender's consent to:

- merge or consolidate;
- sell or transfer assets outside the ordinary course of business;
- make certain types of investments and capital expenditures;
- incur additional indebtedness or guarantee indebtedness of others;
- pay dividends, redeem or repurchase our capital stock;
- enter into transactions with affiliates outside the ordinary course of business; and
- create liens on our assets.

Our loan facility also contains affirmative covenants, including a maximum capital expenditures covenant, determined in relation to our Adjusted EBITDA for the quarter, in the event our total cash reserves fall below a certain threshold. The facility contains events of default, including, among others, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross-defaults to other indebtedness, judgment defaults, bankruptcy and insolvency defaults and a change of control default.

If we experience a decline in cash flow due to any of the factors described in this "Risk Factors" section or otherwise, we could have difficulty paying interest due and principal amounts outstanding in the future, and meeting the financial covenants set forth in our loan facility. If we are unable to generate sufficient cash flow or otherwise obtain the funds necessary to make required payments under our loan facility, or if we fail to comply with the requirements of our indebtedness, we could default under our loan facility. Any default that is not cured or waived could result in the acceleration of the obligations under the loan facility, an increase in the applicable interest rate under the loan facility, and would permit our lender to exercise remedies with respect to all of the collateral that is securing the loan facility, which includes substantially all of our assets. Any such default could materially adversely affect our liquidity and financial condition.

Even if we comply with all of the applicable covenants, the restrictions on the conduct of our business could materially adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that may be beneficial to the business. Even if the loan facility were terminated, additional debt we could incur in the future may subject us to similar or additional covenants, which could place restrictions on the operation of our business.

Our ability to use net operating losses to offset future taxable income may be limited.

As of June 30, 2020, we have U.S. federal and state net operating loss carryforwards and research development credit carryforwards which we may use to reduce future taxable income or offset income taxes due. The NOLs and credit carryforwards start expiring in 2023 and 2020, respectively. Insufficient future taxable income will adversely affect our ability to deploy these NOLs and credit carryforwards. In addition, under Section 382 of the U.S. Internal Revenue Code, or the Code, a corporation that experiences a more than 50% ownership change over a three-year testing period is limited in its ability to use its pre-change NOLs and other tax assets to offset future taxable income or income taxes due. Our existing NOLs and credit carryforwards are subject to limitations arising from previous ownership changes. Our ability to use our NOLs and credit carryforwards could be further limited by Section 382 of the Code if we undergo an ownership change. Future changes in our stock ownership, the causes of which may be

outside our control, could result in an ownership change under Section 382 of the Code. Our NOLs may also be impaired under state law. As a result of these limitations, we may not be able to utilize a material portion of, or possibly any of, the NOLs and credit carryforwards, which could materially adversely affect our cash flows.

Risks Related to Ownership of Our Common Stock

The market price of our common stock may be volatile, and the value of your investment could decline significantly.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has been and is likely to continue to be volatile. Factors that could cause fluctuations in the trading price of our common stock include the following:

- the impact of the COVID-19 pandemic and other public health crises, including on macroeconomic conditions and our business, results of operations and financial condition;
- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance, stock market valuations and volatility in the market prices of other technology companies generally, or those in our industry in particular;
- actual or anticipated quarterly variations in our results of operations or those of our competitors;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments;
- manufacturing or supply interruptions;
- developments with respect to intellectual property rights;
- our ability to develop and market new and enhanced products on a timely basis;
- commencement of, or our involvement in, litigation;
- major changes in our Board of Directors or management;
- changes in governmental regulations or in the status of our regulatory approvals;
- the trading volume of our stock;
- any future sales or repurchases of our common stock or other securities;
- failure of financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- fluctuations in the values of companies perceived by investors to be comparable to us;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections; and
- general economic conditions and slow or negative growth of related markets.

The stock market in general, and market prices for the securities of technology companies like ours in particular, have from time to time experienced volatility that often has been unrelated to the operating performance of the underlying companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. In several recent situations when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and materially adversely affect our results of operations.

If securities or industry analysts do not publish research reports about our business, or if they issue an adverse opinion about our business, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us issues an adverse opinion about our company, our stock price would likely decline. If one or more of these analysts ceases research coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Future sales of our common stock could cause our stock price to fall.

Our stock price could decline as a result of sales of a large number of shares of our common stock or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, commercial relationship, litigation settlement, employee arrangements or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and could cause our stock price to decline.

We are an "emerging growth company," and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups, or JOBS, Act enacted in April 2012, and, until we are no longer an "emerging growth company" at the end of the fiscal year ending December 31, 2020, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies." For example, as an "emerging growth company" we have not been required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002, or Section 404, have been subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Until we are no longer an "emerging growth company," if some investors find our common stock less attractive as a result of any choices to reduce disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

As an "emerging growth company," the JOBS Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We have elected to use this extended transition period under the JOBS Act. As a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our common stock less attractive to investors.

Delaware and Washington law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

Anti-takeover provisions in our charter documents and under Delaware and Washington law could make an acquisition of us difficult, limit attempts by our stockholders to replace or remove our current management or Board of Directors and adversely affect our stock price.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our stock. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws:

- permit the Board of Directors to issue up to 5 million shares of preferred stock, with any rights, preferences and privileges as they may designate;
- provide that the authorized number of directors may be changed only by resolution of the Board of Directors;
- provide that all vacancies on our Board of Directors may only be filled by our Board of Directors and not by stockholders;
- divide the Board of Directors into three classes;
- provide that a director may only be removed from the Board of Directors by the stockholders for cause;
- require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be taken by written consent;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner and meet specific requirements as to the form and content of a stockholder's notice;
- prevent cumulative voting rights (therefore allowing the holders of a plurality of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose);
- provide that special meetings of our stockholders may be called only by the chairman of the board, our chief executive officer (or president, in the absence of a chief executive officer) or by the Board of Directors; and
- provide that stockholders will be permitted to amend our amended and restated certificate of incorporation, and until December 31, 2020, our amended and restated bylaws only upon receiving at least two-thirds of the total votes entitled to be cast by holders of all outstanding shares then entitled to vote generally in the election of directors, voting together as a single class.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder. Likewise, because our principal executive offices are located in Washington, the anti-takeover provisions of the Washington Business Corporation Act may apply to us under certain circumstances now or in the future. These provisions prohibit

a "target corporation" from engaging in any of a broad range of business combinations with any stockholder constituting an "acquiring person" for a period of five years following the date on which the stockholder became an "acquiring person."

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (iii) any action arising pursuant to any provision of the Delaware General Corporation Law, or our amended and restated certificate of incorporation or our amended and restated bylaws or (iv) any other action asserting a claim that is governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware, in all cases subject to the court having jurisdiction over indispensable parties named as defendants.

Our amended and restated bylaws also provide that the federal district courts of the United States of America are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. On December 19, 2018, the Delaware Court of Chancery issued a decision in *Matthew Sciabacucchi v. Matthew B. Salzberg et al.*, C.A. No. 2017-0931-JTL (Del. Ch.), finding that provisions such as the federal forum provision are not valid under Delaware law. In light of this decision of the Delaware Court of Chancery, we previously disclosed that we do not intend to enforce the federal forum provision in our amended and restated bylaws unless and until such time there is a final determination by the Delaware Supreme Court regarding the validity of such provisions. On March 18, 2020, the Delaware Supreme Court issued its decision in *Salzburg et al. v. Matthew Sciabacucchi*, No. 346, 2019 (Del.), which reversed the Delaware Court of Chancery's decision. The Delaware Supreme Court found that provisions such as the federal forum provision are facially valid under Delaware law. In light of this decision finally resolving the facial validity of such provisions, we intend to enforce the federal forum provision in our bylaws.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find either exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Registrant	10-Q	001-38462	3.1	May 25, 2018	
3.2	Amended and Restated Bylaws of the Registrant	8-K	001-38462	3.1	April 21, 2020	
4.1	Specimen Common Stock Certificate of the Registrant	S-1/A	333-224055	4.1	April 16, 2018	
4.2	Amended and Restated Investors' Rights Agreement, dated April 28, 2017, by and among the registrant and the parties named therein	S-1	333-224055	4.2	March 30, 2018	
4.3	Description of the Registrant's Securities	10-K	001-38462	4.3	March 9, 2020	
10.1	Purchase and Sale Agreement with Joint Closing Instructions between nLIGHT, Inc. and Sharp Electronics Corporation, dated March 13, 2020	8-K	001-38462	10.1	March 16, 2020	
10.2	Third Amendment to Lease, by and between nLIGHT, Inc. and Dutton Aspen LLC, dated June 1, 2020					X
10.3	Third Amendment to Lease, by and between Nutronics, Inc. and GCC Longmont Holdings, Limited Partnership, dated July 1, 2020					X
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	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.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

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

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.

NLIGHT, INC.
(Registrant)

August 6, 2020

Date

By: /s/ SCOTT KEENEY

Scott Keeney
President and Chief Executive Officer
(Principal Executive Officer)

August 6, 2020

Date

By: /s/ RAN BAREKET

Ran Bareket
Chief Financial Officer
(Principal Accounting and Financial Officer)

THIRD AMENDMENT TO LEASE
(5408 NE 88th Avenue)

THIS THIRD AMENDMENT TO LEASE ("Third Amendment"), dated and effective June 1, 2020, is by and between DUTTON ASPEN LLC, an Oregon limited liability company ("Landlord") and nLIGHT, INC. (formerly nLIGHT Photonics Corporation), a Delaware corporation ("Tenant").

RECITALS

A. Pursuant to an Amended and Restated Lease dated April 1, 2010 (the "Lease") originally between Aspen North Park L.L.C. ("Aspen North") and Tenant, Aspen North leased to Tenant and Tenant leased from Aspen North certain premises located at 5408 NE 88th Street, Vancouver, Washington and more particularly described therein (the "Premises").

B. The Lease was amended by a First Amendment to Lease dated June 18, 2012 (the "First Amendment"), and a Second Amendment to Lease dated August 1, 2016 (the "Second Amendment"), whereby, among other matters (i) certain property was added to the Premises, (ii) Tenant authorized the construction of additional parking spaces on the Premises, and (iii) the Term was extended to March 31, 2022. The Lease, the First Amendment, and the Second Amendment are referred to herein collectively as the "Lease."

C. Pursuant to an Assignment of Lease dated June 25, 2012, Aspen North assigned all of its interest under the Lease to Landlord.

D. Landlord and Tenant desire to amend the Lease on the terms and conditions set forth below. Except as noted herein, defined terms in this Third Amendment shall have the same meaning given to such terms in the Lease.

NOW, THEREFORE, Landlord and Tenant agree as follows:

1. Term (Section 3). The Term of this Lease is hereby extended for fifteen years (the "Second Extended Term"). The Second Extended Term will commence on June 1, 2020 and will end on May 31, 2035.

2. Rent (Section 1.h). Base Monthly Rent during the first year of the Second Extended Term shall be \$36,792.35. Base Monthly Rent shall increase by 1.75% annually during the Second Extended Term (i.e., on June 1, 2021, Base Monthly Rent shall increase to \$37,436.22), provided, however, in lieu of the foregoing fixed increases, Base Monthly Rent shall be increased to "Market Rent" on June 1, 2026 and June 1, 2031. Market Rent shall be established in accordance with Sections 29(b) and 29(c) of the Lease (including, without limitation, the provision that Base Monthly Rent as a result of such adjustment will not be less than Base Monthly Rent during the prior Lease Year). Following each Market Rent adjustment, Base Monthly Rent shall continue to be increased annually as set forth above.

3. Renewal Option (Section 29). Tenant shall have the right to extend the Term of the Lease for one additional five (5) year period on the terms and conditions set forth in Section 29 of the Lease. Section 29(a) is hereby amended to reduce the notice period for the exercise of the option to one hundred eighty (180) days and Section 29(c) is hereby amended to provide that, once established, Base Monthly Rent during the Renewal Period will increase annually by 1.75% during the Renewal Term.

4. Early Termination. Tenant shall have, in its sole discretion, a one-time right to terminate the Lease effective on May 31, 2030 (the "Early Termination Date"). Such right shall be exercised, if at all, by written notice to Landlord given no later than the date which is 180 days prior to the Early Termination Date.

5. Reserves (Section 4.d). Landlord and Tenant acknowledge and agree that, as of the Effective Date, the reserve account should be in the amount of \$264,276, which Landlord will, in accordance with Section 4(d) of the Lease, utilize to replace the asphalt surface of the parking lot, seal coat the parking lot, replace the roof and paint the exterior of the Premises. Landlord is authorized to continue to collect reserves to fund future repairs as provided in Section 4(d) of the Lease, which reserve contribution may be adjusted from time to time based on the anticipated cost of future repairs or replacements.

6. Alterations (Section 13). The fifth sentence of this section is hereby amended to read as follows:

All alterations other than Tenant's trade fixtures, and any equipment and personal property, shall be a part of the Premises and shall remain on and be surrendered with the Premises upon expiration or termination of this Lease, except for those which Landlord elects shall be removed by written notice given during the Lease Term; provided, however, Landlord and Tenant hereby agree that (i) Landlord accepts and will not require Tenant to remove at expiration or termination of this Lease, the approximately 12,000 square feet of additional office space added by Tenant or the non-specialty wiring, or plumbing now or hereafter installed by Tenant in accordance with the provisions of this Lease; (ii) tenant shall have no obligation to remove walls or other structures in place at the time Tenant took occupancy to build out its own tenant improvements, and (iii) without limiting Tenant's rights and obligations under this Section 13 or Section 25 below, Tenant will be required to remove at expiration or termination of this Lease, (x) the improvements it created for the clean room and all associated wiring, plumbing, and ductwork (including the ductwork in the ceiling and on the roof), and (y) the outdoor tank farm (the "Required Removables").

7. Surrender (Section 25). The second sentence of this section is hereby amended to read as follows:

Notwithstanding the foregoing, unless the parties otherwise mutually agree, Tenant shall remove (i) the Required Removables described in Section 13 above, and (ii) all trade fixtures, equipment, and personal property including, without limitation, all wallpaper, paneling, and other decorative improvements and

fixtures and shall perform all restoration made necessary by the removal of any alterations or Tenant's personal property before the expiration of the Term, including for example, restoring the wall surfaces to their condition prior to the Commencement of this Lease, ordinary wear and tear excepted (the "Surrender Obligations").

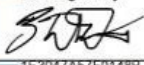
8. Letter of Credit. In order to secure Tenant's Surrender Obligations, Tenant shall provide Landlord a Letter of Credit in the form and substance required by Section 6(b) of the Lease, except that the Letter of Credit shall be in the amount of \$250,000, and will expire on the date which is ninety (90) days following the expiration of the Term of the Lease (including any Renewal Terms).

9. Brokers. Tenant represents and warrants that it has not dealt with any real estate broker(s) in connection with this Third Amendment and will indemnify Landlord from any claims with respect thereto.

10. Full Force and Effect. Except as amended by the First Amendment, the Second Amendment, and this Third Amendment, the Lease is in full force and effect.

LANDLORD:

DUTTON ASPEN LLC

DocuSigned by:
By: 
1E3047A57E0148B
B. Daniel Dutton, Manager

TENANT:

nLIGHT, INC.

DocuSigned by:
By: 
A4B11B47A2D14E1
Ran Bareket, Chief Financial Officer

THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE ("Amendment"), dated effective as of 7/1/2020, is entered into by and between GCC LONGMONT HOLDINGS, LIMITED PARTNERSHIP, a Delaware limited partnership ("Landlord"), and NUTRONICS, INC., a Nevada corporation ("Tenant").

WITNESSETH:

WHEREAS, Landlord's predecessor in interest and Tenant entered into that certain Lease dated July 3, 2014, including that certain Addendum ("Addendum"), as amended by that certain First Amendment to Lease dated August 4, 2016, that certain Second Amendment to Lease dated November 2, 2016, and that certain Expansion Date Acknowledgement and Agreement dated May 3, 2017 (collectively, the "Lease"), pertaining to those certain premises (the "Existing Premises") consisting of approximately 16,792 rentable square feet of space known as Suite G in the building (the "Building") having an address of 1851 Lefthand Circle, Longmont, Colorado. Terms not otherwise defined herein shall have their respective meanings set forth in the Lease.

WHEREAS, the parties desire to expand the Existing Premises with additional space in the building having an address of 1841 Lefthand Circle, Longmont, Colorado ("1841 Building"), as further described on Exhibit A-1 attached hereto and incorporated herein by this reference, and extend the Term of the Lease for the Premises, as provided herein;

WHEREAS, on or about November 14, 2019, nLIGHT, Inc., a Delaware corporation ("Guarantor"), acquired 100% of the ownership interest in Tenant.

WHEREAS, the parties desire to amend the Lease to reflect the expansion of the Existing Premises, extension of the Term, and otherwise the amendment of the Lease in the manner and form hereinafter set forth.

NOW, THEREFORE, for good and valuable consideration, Landlord and Tenant hereby agree as follows:

1. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, in addition to the Existing Premises, space in the 1841 Building consisting of approximately 21,143 rentable square feet (the "Expansion Premises"), as shown on Exhibit A hereto and made a part hereof by reference, on all of the terms of the Lease as herein amended on the following basis:

A. Tenant's right to occupy the Expansion Premises and its obligations under the Lease with respect to the Expansion Premises, including but not limited to Tenant's obligations to pay Rent and other charges payable pursuant to the Lease, shall commence on the earlier of (the "Expansion Date"): (a) February 1, 2021, (b) the date the Expansion Space Improvements are substantially completed, or (c) the date Tenant conducts the Permitted Use from the Expansion Premises. "Substantially completed" as used in the prior sentence means that the Expansion Space Improvements have been completed to the extent Tenant may occupy the Expansion Premises and operate the Permitted Use. The Lease, as it pertains to both the Existing Premises and the Expansion Premises, shall terminate on the last day of the 66th whole calendar month after the Expansion Date (the "New Expiration Date"). As of the Expansion Date, references to Premises in the Lease shall include the Expansion Premises, Tenant's occupancy of the Expansion Premises shall be subject to all terms of the Lease as herein specifically amended, and the Premises described in the Lease shall consist of the Existing Premises and the Expansion Premises for a total of approximately 37,935 rentable square feet of space.

B. Except as expressly set forth herein, Landlord has no obligation to make or pay for improvements or alterations to the Existing Premises or the Expansion Premises, and Tenant accepts the Existing Premises and the Expansion Premises in their current "as is" condition as of the date of this Amendment. Tenant shall have the right to access the Expansion Premises commencing on the date of this Amendment for purposes of planning and design, but Tenant shall not commence construction of the Expansion Space Improvements in the Expansion Premises until the Garage Contingency (as hereafter defined) has been satisfied or waived by Tenant. No Base Rent or any other amounts owed under the Lease for the Expansion Premises will apply during this early access period. At the request of Landlord, the parties will evidence the Expansion Date, and such other matters set forth therein in an agreement substantially in the form of Exhibit B attached hereto, which agreement will contain a revised Base Rent schedule for the Premises.

C. Landlord shall reimburse Tenant for the cost of improvements to be made by Tenant to the Expansion Premises (the "Expansion Space Improvements") up to a maximum amount of \$528,575.00 (the "Expansion Space Allowance"). In addition to the Expansion Space Allowance, Landlord shall reimburse Tenant for the cost of improvements to be made by Tenant to the Existing Premises (the "Existing Premises Improvements") up to a maximum amount of \$58,772.00 (the "Existing Premises Allowance"). The Expansion Space Allowance and the Existing Premises Allowance are referred to herein together as the "Allowance." The Expansion Space Improvements and the Existing Premises Improvements are referred to herein together as the "Improvements." The Improvements shall be generally in accordance with the 4/22/2019 plans of Hampton Architecture ("Approved Plans"). The Allowance shall be used to pay for expenditures related to the Improvements including but not limited to costs of all labor, materials, permits, fees, contractors and subcontractors' charges, and, pursuant to Section 10 of the Lease, payment of Landlord's supervisory fee in an amount equal to \$95.00 per hour or, if the Improvements are not constructed by Landlord's employees, 3% of project costs of the Improvements, plus any out of pocket engineering and architectural review costs. All costs of the Improvements in excess of the Allowance shall be at Tenant's expense. Tenant is responsible for and shall pay all costs and expenses of the Improvements that are not allowable as expenditures from the Allowance as such amounts become due and payable. Promptly following completion of the Improvements, Tenant will deliver to Landlord a request for payment of the Allowance, accompanied by all of the following in form and substance reasonably satisfactory to Landlord: (a) a copy of the contract with Tenant's general contractor which includes a plan or scope of work to be performed; (b) duly executed unconditional lien waivers and such other affidavits, certificates, information, and data as may be reasonably requested by Landlord from all general contractors, subcontractors and materialmen performing work on the Premises; (c) an itemized computation of the actual total costs incurred by Tenant ("Actual Costs") and paid invoices evidencing payment of the Actual Costs; (d) final as-built plans and specifications for the Expansion Improvements; and (e) such other information and documentation as Landlord or Landlord's lender may reasonably request to evidence the proper, lien-free completion of the Improvements. Unless Landlord reasonably disputes in writing Tenant's assertion that the Improvements have been completed in accordance with the provisions of the Lease as herein amended, within 30 days after Landlord's receipt, review and reasonable approval of all of the foregoing, Landlord will pay to Tenant the amount of the Actual Costs of the Improvements, up to the maximum amount of the Allowance. In no event will Landlord have any obligation to reimburse Tenant for any costs of the Improvements in excess of the Allowance. Unless otherwise agreed by Landlord and Tenant in writing, if any portion of the Allowance has not been requested by Tenant on or before the date that is 24 full calendar months from the date of this Amendment, such amount will be forfeited by Tenant to Landlord. The Improvements shall be performed as alterations in accordance with the terms and conditions of the Lease, including without limitation Section 10 of the Lease; provided, however, that Tenant shall have no obligation to remove the Improvements at the end of the Term, provided such Improvements are constructed in accordance with the Approved Plans. In addition to the Allowance, Landlord has paid the cost of the initial space plan for the Improvements and shall pay for one revision to the space plan.

D. In addition to Tenant's parking rights for the Existing Premises, Tenant shall have the right to use 68 parking spaces in the parking areas for the 1841 Building, based on a parking ratio of 3.21 spaces/1,000 rentable square feet leased. Tenant's use of the parking areas shall be subject to and in accordance with the provisions of the Lease, as herein amended.

2. Tenant desires, at Tenant's sole cost and expense, to construct a garage (the "Garage") in the location, size, configuration and construction as shown on Exhibit C attached hereto and incorporated herein by this reference. Tenant agrees to diligently pursue completion of the Garage in a manner so as to minimize disruption to other tenants of the Building and other buildings in close proximity to the Building. Tenant shall not be required to remove the Garage at the end of the Term provided the Garage conforms to the specifications set forth on Exhibit C in all material aspects; provided, however, if changes to Exhibit C are requested by Tenant and approved in writing by Landlord, Landlord shall notify Tenant of whether any such changes will need to be removed at the time of approval if so requested in writing by Tenant. Upon the earlier of (i) substantial completion of the Garage or (ii) upon Tenant conducting the Permitted Use within the Garage, Tenant shall pay to Landlord, at the same times and in the same manner as Base Rent is paid for the Premises, rent for the Garage at the initial rate of \$4.00 per rentable square foot of the Garage, which rate shall increase annually by 5%. Substantial completion as used in the prior sentence means that the Garage has been completed to the extent Tenant may occupy the Garage and operate all or a portion of the Permitted Use. Promptly following the date of this Amendment, Landlord, on behalf of Tenant and at Tenant's expense, shall use commercially reasonable efforts to obtain the site plan waiver approval (the "Approval") required to construct the Garage from the City of Longmont's Planning and Development Services Department (the "Department"), and Tenant shall fully cooperate without delay as reasonably required with Landlord's efforts to obtain the Approval, including without limitation promptly providing all information and documentation as may be required. The cost of obtaining the Approval shall be deducted from the Allowance, or, if the Approval is not obtained, then Tenant shall reimburse Landlord for all costs incurred by Landlord in seeking to obtain the Approval within thirty (30) days after receipt of an invoice from Landlord. If the Department does not issue the Approval for the construction of the Garage on or before four (4) months after the date of this Amendment (the "Garage Contingency"), then Tenant in its sole discretion shall have the option, upon delivery of written notice to Landlord within seven (7) days after the end of such 4-month period, to elect to declare this Amendment null and void and of no further effect, provided the Lease shall remain in full force and effect without regard to this Amendment. Upon issuance of the Approval, the contingency set forth in this Section 2 shall be deemed satisfied.

3. Until the Expansion Date, Tenant shall continue to pay Base Rent for the Existing Premises pursuant to the terms of the Lease. Commencing on the Expansion Date, Tenant shall pay Base Rent for the Existing Premises pursuant to the terms of the Lease and, notwithstanding anything contained in the Lease to the contrary, in accordance with the following schedule:

Period	Annual PSF	Monthly Base Rent
Expansion Date through Month 12	\$12.00	\$16,792.00
Month 13 through Month 24	\$12.50	\$17,491.67
Month 25 through Month 36	\$13.00	\$18,191.33
Month 37 through Month 48	\$13.50	\$18,891.00
Month 49 through New Expiration Date	\$14.00	\$19,590.67

The Lease shall continue for the Existing Premises through the New Expiration Date. As of August 1, 2022, the Base Rent rate for the Existing Premises shall be payable at the then current rate of Base Rent for the Expansion Premises, and shall increase at the same times and in the same amounts as for the Expansion Premises through the New Expiration Date. The final Base Rent Schedule for the Premises (inclusive of the Existing Premises and the Expansion Premises) shall be set forth in the Expansion Date

Acknowledgment and Agreement. In consideration for the increase in Base Rent applicable to the Existing Premises, in addition to the Allowance, Landlord provide Tenant with an additional allowance in the amount of \$79,720.02 (the "Additional Allowance"), which may be used for Improvements and is payable by Landlord in the same manner as the Allowance; provided, however, any amount not used by Tenant for the cost of Improvements may, upon Tenant's written notice to Landlord, be applied as a credit toward Base Rent payments first coming due after Tenant's notice. The Additional Allowance is based on the actual number of months of increased Base Rent for the Existing Premises, and if the Expansion Date does not occur on or before February 1, 2021, then the Additional Allowance is subject to proportionate reduction. Unless otherwise agreed by Landlord and Tenant in writing, if any portion of the Allowance has not been requested by Tenant on or before the date that is 24 full calendar months from the date of this Amendment, such amount will be forfeited by Tenant to Landlord.

4. Commencing on the Expansion Date, in addition to Base Rent for the Existing Premises, Tenant shall pay Base Rent for the Expansion Premises pursuant to the terms of the Lease, in accordance with the following schedule:

Period	Annual PSF	Monthly Base Rent
Expansion Date through Month 12*	\$12.00	\$21,143.00*
Month 13 through Month 24	\$12.50	\$22,023.96
Month 25 through Month 36	\$13.00	\$22,904.92
Month 37 through Month 48	\$13.50	\$23,785.88
Month 49 through New Expiration Date	\$14.00	\$24,666.83

*Notwithstanding anything to the contrary, Tenant may abate the payment of Base Rent (but not any other charges payable by Tenant pursuant to the Lease) for the first 6 months following the Expansion Date (the "Abated Rent Period"). Rents payable hereunder are allocable to, and will be accrued by the parties during, their fiscal periods in which the same is actually paid. No portion of the Rent paid by Tenant during periods after the expiration of the Abated Rent Period will be allocated to such Abated Rent Period, nor is such Rent intended to be allocable to the Abated Rent Period. If at any time during the Term, an event of default by Tenant occurs, Tenant owes Landlord, in addition to all other amounts, the unamortized portion of the Rent abated hereunder; such amortization to be on a straight-line basis over the period commencing on the Expansion Date and continuing through the New Expiration Date. Tenant has no obligation to pay the abated amounts if no event of default by Tenant occurs prior to the expiration of the Term.

5. In addition to Base Rent for the Premises, Tenant shall be obligated to pay all other charges payable by Tenant for the Premises (inclusive of the Existing Premises and the Expansion Premises), including without limitation utilities and Tenant's Share of all Operating Costs, Taxes, insurance, and other sums payable by Tenant in accordance with the Lease for both the Building and the 1841 Building. For periods on and after the Expansion Date, Tenant's Share of the 1841 Building shall mean 71.429%. In the event the Garage is constructed, the Building will be remeasured by Landlord's architect and Tenant's Share shall include the Garage and be adjusted based on the new rentable square footage of the Building.

6. Upon execution of this Amendment, Tenant shall deposit with Landlord an additional amount equal to \$15,503.93 to be added to the existing Security Deposit being held by Landlord in the amount of \$46,728.97. Thereafter, Landlord shall hold the Security Deposit in the amount of \$62,232.90 for the duration of the Term as it may be extended.

7. Concurrently with the execution and delivery of this Amendment by Tenant, and as a condition to the effectiveness of this Amendment, Tenant shall deliver to Landlord a Guaranty in the form attached hereto as Exhibit D executed by Guarantor.

8. This Amendment shall not affect the Option to extend the Term of the Lease granted to Tenant in paragraph 1 of the Addendum; provided, however, Tenant shall have two (2) Options to extend the Term of the Lease for a period of five (5) years each, and each Option shall apply to the Premises, inclusive of the Existing Premises and the Expansion Premises. All other terms and conditions set forth in paragraph 1 of the Addendum shall apply to each of said Options.

9. Subject to the Prior Rights (as hereafter defined), Tenant shall have a continuous and on-going Right of First Offer ("ROFO") to lease any rentable space in the Building or the 1841 Building that is contiguous and adjacent to the Premises (the "ROFO Space") which becomes available after the date of this Amendment, subject to and in accordance with the terms and conditions of this Section 8.

A. If any portion of the ROFO Space becomes available and Landlord intends to market the ROFO Space for leasing to third parties from time to time, Landlord shall give notice thereof to Tenant in each such instance ("Offer Notice"). Each Offer Notice shall provide that the ROFO Space will be offered to Tenant upon the provisions that Landlord would offer to lease the ROFO Space to third parties. Such provisions will include, among other things, escalations and pass-throughs. Tenant has 7 days after receiving an Offer Notice within which to notify Landlord whether it elects to lease the ROFO Space, which election must be upon the terms and for all space included in the Offer Notice.

B. Landlord's obligation to offer ROFO Space to Tenant is subordinate to all rights of extension, expansion, or first offer or refusal as to the ROFO Space in favor of the tenants under existing leases as of the date of this Lease and is subordinate to the option of Landlord to extend the existing lease of any current tenant of any ROFO Space, whether or not such tenant's lease expressly provides for such extension option ("Prior Rights").

C. If Tenant does not timely notify Landlord of its election to lease the ROFO Space offered under the applicable Offer Notice, it will be conclusively presumed that Tenant has waived its ROFO as to the ROFO Space offered under the applicable Offer Notice, and Landlord shall be free to lease the ROFO Space offered under the applicable Offer Notice to a third party upon such terms as Landlord and the third party agree.

D. Upon exercise of any ROFO, the ROFO Space will be deemed added to the Premises and Tenant will accept such space in its "as is" condition without any remodeling or fix-up work performed by Landlord, except to the extent set forth in the Offer Notice. All costs of preparing any ROFO Space for Tenant's occupancy, including costs of compliance with applicable laws will be paid by Tenant, except to the extent set forth in the Offer Notice. After exercise of any ROFO, the parties will execute an amendment to the Lease evidencing the addition of such ROFO Space.

E. Tenant's right to exercise any ROFO is conditioned on: (i) no event of default by Tenant existing at the time it exercises the ROFO or on the date that Tenant's occupancy of the ROFO Space is scheduled to commence; (ii) there having been no more than 2 uncured events of default by Tenant during the Term; (iii) Tenant not having vacated the Premises or assigned its interest in the Lease, except to a Permitted Transferee; and (iv) Tenant not having first sublet the Premises or any portion thereof from and after the date of the Offer Notice. This ROFO is personal to Tenant and may not be assigned (except to a Permitted Transferee). In the event of such an assignment of the Lease (other than to a Permitted Transferee) or a subletting or vacation of any portion of the Premises, or if there has been more than 2 uncured Events of Default by Tenant during the Term, the ROFO shall be deemed null and void and of no further force or effect.

F. All notifications contemplated by this Section 8, whether from Tenant to Landlord, or from Landlord to Tenant, must be in writing and given in the manner provided for notices in this Lease.

10. Tenant hereby represents and warrants to Landlord that it has not engaged any broker in connection with the negotiation and/or execution of this Amendment other than JLL ("Tenant's Broker"), who has acted as Tenant's agent. Tenant has no knowledge of any broker's involvement in this transaction, other than Sentinel Management, Inc. ("Landlord's Broker"), who has acted as Landlord's agent. Landlord shall pay those commissions regarding this Amendment owed to Tenant's Broker and/or Landlord's Broker pursuant to a separate agreement. Tenant will indemnify Landlord against any claim or expense (including, without limitation, attorneys' fees) paid or incurred by Landlord as a result of any claim for commissions or fees by any broker, finder, or agent, whether or not meritorious, employed by Tenant or claiming by, through or under Tenant other than Tenant's Broker. Landlord will indemnify Tenant against any claim or expense (including, without limitation, attorneys' fees) paid or incurred by Tenant as a result of any claim for commissions or fees by any broker, finder, or agent, whether or not meritorious, employed by Landlord or claiming by, through or under Landlord.

11. The 1841 Building has two existing 120/208 volt transformers. One transformer is 750kw and the second transformer is 500kw. Tenant shall have access to all 1250kw except for one 400amp 120/208 volt electrical panel.

12. In Section 10 (Alterations – Changes and Additions – Responsibility – No Holes in Roof – No Equipment on Roof) of the Lease, the second to last sentence of the second paragraph shall be deleted in its entirety and replaced with the following in lieu thereof:

If within 20 days after such plans and specifications are submitted by Tenant to Landlord for such approval, Landlord shall have not given Tenant notice of disapproval, stating the reason for such disapproval, Tenant may deliver a second request for approval to Landlord which request shall clearly state in large bold letters that failure to respond within ten (10) days shall be deemed approval, and if Landlord fails to respond within such 10-day period, then such plans and specifications shall be considered approved by Landlord.

13. In Section 22.1.3 (Default Defined) of the Lease, "10 days" shall be deleted and replaced with "15 days".

14. Notwithstanding anything to the contrary in the Lease, if this Lease is junior to any mortgage or deed of trust, prior to the Expansion Date, Landlord shall request a subordination, attornment and non-disturbance agreement to be entered into with Tenant from all such holders of a mortgage or deed of trust, on such holders' standard form ("SNDA").

15. Tenant's parent company is Guarantor, which is a publicly traded company. So long as Guarantor remains a publicly traded company, Section 30 of the Lease is hereby modified to the effect that if Landlord requests financial statements or other financial information from Tenant, the request will be satisfied if Tenant provides publicly available financial information of Guarantor.

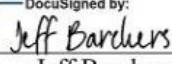
15. Section 38.3 (Substitute Premises) of the Lease is hereby deleted in its entirety.

16. If there is any conflict between the terms of this Amendment and the terms of the Lease, the terms of this Amendment govern. The Lease as hereby amended is in full force and effect, is hereby ratified and affirmed by the parties, and is binding upon the parties in accordance with its terms.

17. Time is of the essence herein.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and year below and it is effective as of the date first above written.

NUTRONICS, INC., a Nevada corporation

By: 
Name: Jeff Barchers
Title: VP/CTO

Date of Signature: 7/1/2020

"Tenant"

GCC LONGMONT HOLDINGS, LIMITED
PARTNERSHIP, a Delaware limited partnership

By: GCC Longmont Holdings GP, Inc.,
a Delaware corporation, its General Partner

By: 
Name: Dave Kristen
Title: Managing Partner

Date of Signature: 7/1/2020

"Landlord"

Exhibit A
Expansion Premises

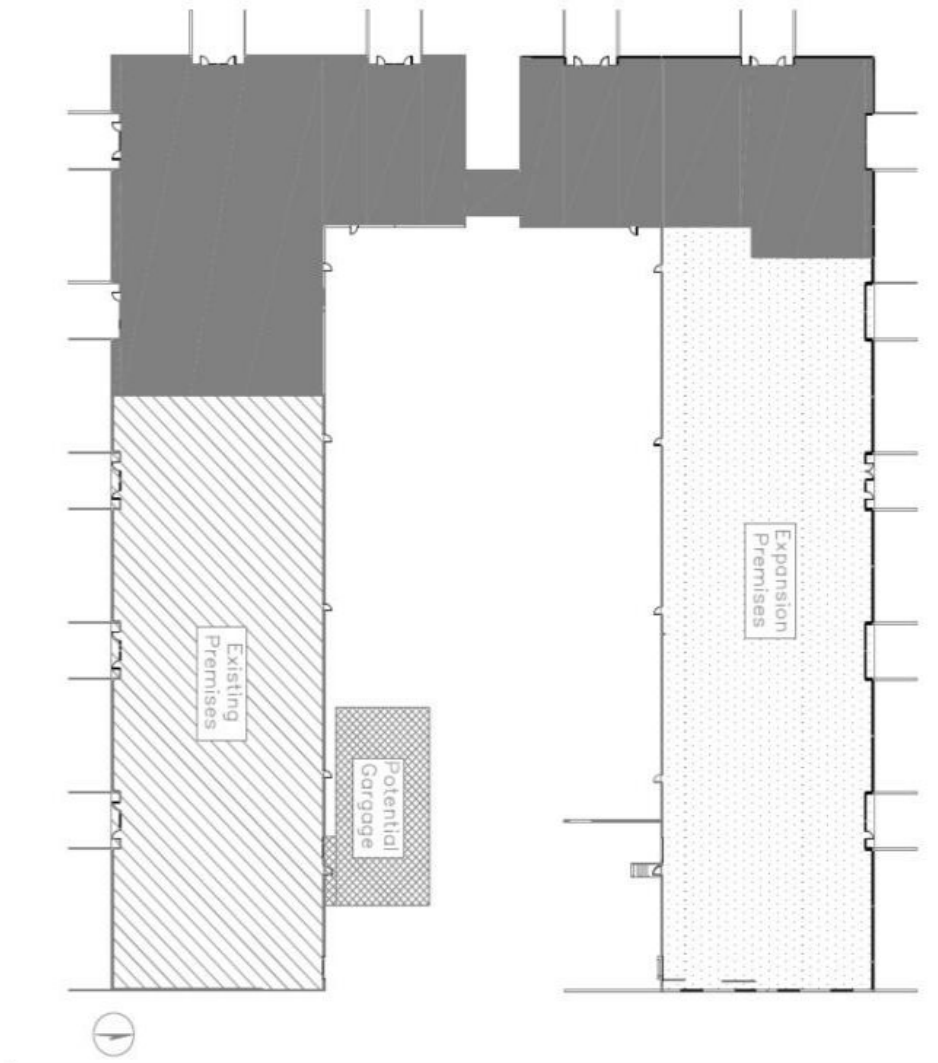


Exhibit A-1
1841 Building

LOT 1F, LONGS PEAK INDUSTRIAL PARK-MINOR SUBDIVISION "F", THE PLAT OF WHICH
WAS RECORDED FEBRUARY 28, 1983 ON FILM 1241 AS RECEPTION NO. 535391 UNDER
PLAN FILE NO. P-13, F-3, #10,
CITY OF LONGMONT,
COUNTY OF BOULDER,
STATE OF COLORADO.

Exhibit B

Form of Expansion Date Acknowledgement and Agreement

Expansion Date Acknowledgment and Agreement

This Expansion Date Acknowledgment and Agreement ("Agreement") is an acknowledgment of the Expansion Date as defined in the Third Amendment to Lease ("Amendment") and intended to be a part of that certain Lease for premises located at 1841 and 1851 Lefthand Circle, Longmont, Colorado, which Amendment was effective on the ____ day of _____, 2020, by GCC LONGMONT HOLDINGS, LIMITED PARTNERSHIP, a Delaware limited partnership, as Landlord, and NUTRONICS, INC., a Nevada corporation, as Tenant.

Landlord and Tenant hereby agree that:

1. Tenant acknowledges that both the 1851 Building, the 1841 Building and the Premises (inclusive of the Existing Premises and the Expansion Premises) are satisfactory in all respects.
2. Tenant took possession of the Expansion Premises on _____, _____. Tenant hereby agrees to pay partial month's Base Rent in the amount of \$_____ (____ days at \$____ per diem).
3. The Expansion Date of the Lease is hereby agreed to be the ____ day of the month of _____, _____. The New Expiration Date is hereby agreed to be the last day of the month of _____, 20____.
4. Tenant shall pay Base Rent for the Premises pursuant to the terms of the Lease and in accordance with the following schedule:

Period	Annual PSF	Monthly Base Rent
____, 20 - _____, 20	\$ _____	\$ _____
____, 20 - _____, 20	\$ _____	\$ _____
____, 20 - _____, 20	\$ _____	\$ _____
____, 20 - _____, 20	\$ _____	\$ _____
____, 20 - _____, 20	\$ _____	\$ _____
____, 20 - _____, 20	\$ _____	\$ _____
____, 20 - _____, 20	\$ _____	\$ _____

All other terms and conditions of the Lease are hereby ratified and acknowledged to be unchanged.

Agreed and executed this _____ day of _____, 2020.

LANDLORD:

GCC LONGMONT HOLDINGS, LIMITED
PARTNERSHIP, a Delaware limited partnership

By: GCC Longmont Holdings GP, Inc., a Delaware
corporation, its General Partner

By _____
Title _____

TENANT:

NUTRONICS, INC.,
a Nevada corporation

By _____
Title _____

Exhibit C
Garage Specifications

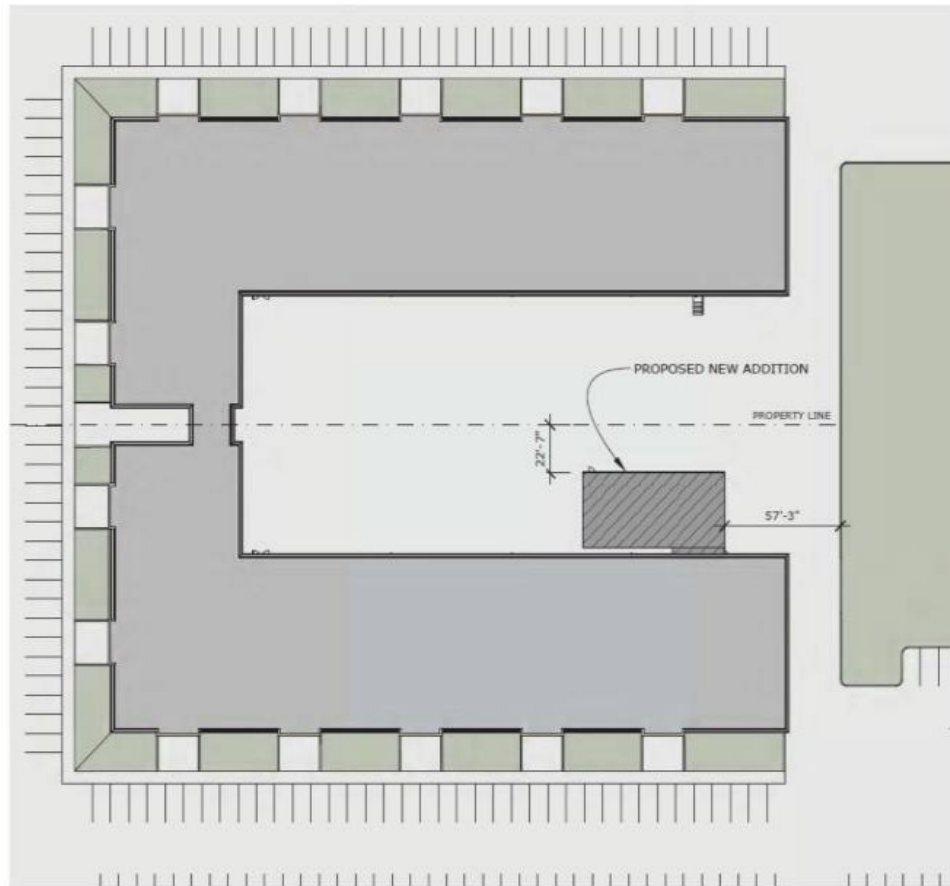


Exhibit D
Form of Guaranty

Guaranty

THIS GUARANTY is executed as of 7/1/2020, by nLIGHT, Inc., a Delaware corporation ("Guarantor").

WITNESSETH:

GCC LONGMONT HOLDINGS, LIMITED PARTNERSHIP, a Delaware limited partnership ("Landlord"), is willing to execute that certain Third Amendment to Lease dated July 1st, 2020 (the "Third Amendment"), to that certain Lease dated July 3, 2014, including that certain Addendum ("Addendum"), with Nutronics, Inc., a Nevada corporation ("Tenant"), as amended by that certain First Amendment to Lease dated August 4, 2016, that certain Second Amendment to Lease dated November 2, 2016, and that certain Expansion Date Acknowledgement and Agreement dated May 3, 2017 (collectively, the "Lease"), pertaining to those certain premises (the "Existing Premises") consisting of approximately 16,792 rentable square feet of space known as Suite G in the building (the "Building") having an address of 1851 Lefthand Circle, Longmont, Colorado on condition of receiving this Guaranty;

NOW, THEREFORE, for and in consideration of Landlord's execution and delivery of the Third Amendment and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged by Guarantor, Guarantor hereby agrees as follows:

1. Guarantor represents and warrants to Landlord that:
 - A. Guarantor is financially interested in Tenant.
 - B. The financial information provided to Landlord by Tenant and Guarantor is accurate for the periods shown and there has been no material adverse change since such dates in either Tenant or Guarantor. Any financial information shall be provided under a standard non-disclosure agreement among Landlord, Tenant and Guarantor.
2. Guarantor unconditionally and irrevocably guarantees the prompt and faithful performance of all provisions of the Lease by Tenant and any assignee and any Permitted Occupant of Tenant, including, but not limited to, payment of all rent and other sums due Landlord. Guarantor waives each and every notice to which Guarantor may be entitled under the Lease, or otherwise, and consents to any extension of time, leniency, waiver, forbearance, or any amendment which may be made in the Lease, and no amendment, waiver, or forbearance will release Guarantor from any liability or obligation hereby guaranteed. Notwithstanding anything contained herein to the contrary, in the event of an assignment of the Lease by the original Tenant to an entity having a net worth, as reasonably determined by Landlord, of not less than Guarantor's as of the effective date of such assignment or as of the date of this Guaranty, whichever is higher, and such entity is otherwise approved by Landlord in writing in accordance with the terms and conditions of the Lease, then, provided such entity assumes Tenant's obligations under the Lease in a writing acceptable to Landlord and there has been no default by Tenant under the Lease prior to the date of such assignment, Guarantor's liability under the Lease for the obligations of such assignee-entity under the Lease from and after the effective date of such assignment shall terminate; provided, however, Guarantor shall remain liable for all obligations of Tenant arising prior to the effective date of such assignment and such obligations shall survive such termination. In no event shall Guarantor be released from liability under this Guaranty in the event of an assignment under the Lease that does not require Landlord's consent.
3. If an event of default (as defined in the Lease) by Tenant occurs, Landlord may commence suit against Guarantor and/or exercise any available remedy at law or equity to enforce the provisions of

this Guaranty without first commencing any suit or otherwise proceeding against Tenant or exhausting its remedies against Tenant. This is a guaranty of payment and performance and not a guaranty of collection; Guarantor's liability under this Guaranty is primary. Landlord's rights shall not be exhausted by its exercise of any remedies or by any number of successive suits until and unless all obligations hereby guaranteed have been fully performed.

4. Landlord and Guarantor each waives any right to a trial by jury in suits arising out of or concerning the provisions of this Guaranty. If any suit is commenced by Landlord to enforce this Guaranty, the prevailing party shall recover all reasonable costs incurred in connection therewith, including reasonable attorneys' fees.

5. No payment by Guarantor except full payment and performance shall entitle Guarantor by subrogation or otherwise, to any payment by Tenant under or out of the property of Tenant.

6. This Guaranty inures to the benefit of Landlord, its successors and assigns and shall be binding upon the heirs, personal representatives, successors, and assigns of Guarantor.

7. The liability of Guarantor is not affected by, and Guarantor expressly waives any defenses by reason of, (a) the release or discharge of Tenant in any bankruptcy or other proceedings; (b) the limitation or cessation of the liability of Tenant; (c) the rejection or disaffirmance of the Lease in any proceeding; (d) amendment, assignment or transfer of the Lease by Tenant; or (e) any disability or other defense of Tenant.

8. Guarantor agrees that if Tenant files a petition for relief under any provisions of the Federal Bankruptcy Code, or any similar law, if such a petition filed by creditors of Tenant is approved by a Court, or if any Court appoints a receiver tenant to operate, including Tenant's obligations under the Lease and/or a substantial part of Tenant's property:

(a) if the Lease is terminated or rejected, or the obligations of Tenant are modified, Landlord has the option either (i) to require Guarantor to execute and deliver to Landlord a new lease as tenant for the balance of the term and containing the same provisions as the Lease, or (ii) to recover from Guarantor that which Landlord would have been entitled to recover from Tenant upon a termination of the Lease due to a default by Tenant even though Landlord may not be entitled to recover the same from Tenant in such proceeding; and

(b) if any obligation under the Lease is performed by Tenant and any part of such performance is avoided or recovered from Landlord as a preference, fraudulent transfer or otherwise, the liability of Guarantor under this Guaranty shall remain in effect.

9. This Guaranty will be governed by the internal laws of the State of Colorado and shall be deemed executed in the City and County of Denver. Guarantor consents to and submits to the jurisdiction of the federal and state courts located in Denver, Colorado, and any suit shall be brought in a federal or state court located in Denver, Colorado, with appropriate jurisdiction over the subject matter. Guarantor waives any defenses based on the venue, inconvenience of the forum, lack of personal jurisdiction, sufficiency of service of process or the like in any suit brought as aforesaid.

nLIGHT, Inc., a Delaware corporation

DocuSigned by:

By: Ran Barkat
Its: Chief Financial Officer

"Guarantor"

NLIGHT, INC.
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a - 14(a) OR RULE 15d - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Scott Keeney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of nLIGHT, 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 6, 2020

/s/ SCOTT KEENEY

 Scott Keeney

President, Chief Executive Officer and Chairman (Principal Executive Officer)

nLIGHT, INC.
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a - 14(a) OR RULE 15d - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Ran Bareket, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of nLIGHT, 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 6, 2020

/s/ RAN BAREKET

Ran Bareket

Chief Financial Officer (Principal Accounting and Financial Officer)

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

In connection with the filing of the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report") by nLIGHT, Inc. (the "Company"), Scott Keeney, as the Chief Executive Officer of the Company, and Ran Bareket, as the Chief Financial Officer of the Company, each hereby certifies 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 his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or Section 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.

Date: August 6, 2020

/s/ SCOTT KEENEY

Scott Keeney

President, Chief Executive Officer and Chairman (Principal Executive Officer)

/s/ RAN BAREKET

Ran Bareket

Chief Financial Officer (Principal Accounting and Financial Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of nLIGHT, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.