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 September 30, 2022

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	**91-2066376**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4637 NW 18th Avenue
Camas, Washington 98607
(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 October 31, 2022, the Registrant had 45,307,101 shares of common stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	As of	
	September 30, 2022	**December 31, 2021**
Assets		
Current assets:		
Cash and cash equivalents	$ 62,184	$ 146,534
Marketable securities	50,190	—
Accounts receivable, net of allowances of $287 and $303	43,803	41,574
Inventory	80,660	73,746
Prepaid expenses and other current assets	14,138	15,350
Total current assets	250,975	277,204
Restricted cash	251	250
Lease right-of-use assets	14,472	17,048
Property, plant and equipment, net	63,232	56,101
Intangible assets, net	4,676	6,698
Goodwill	12,313	12,420
Other assets, net	2,634	3,897
Total assets	$ 348,553	$ 373,618
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 19,755	$ 26,347
Accrued liabilities	14,548	14,730
Deferred revenues	1,736	1,629
Current portion of lease liabilities	2,697	3,066
Total current liabilities	38,736	45,772
Non-current income taxes payable	6,527	7,149
Long-term lease liabilities	13,515	14,612
Other long-term liabilities	3,937	3,952
Total liabilities	62,715	71,485
Stockholders' equity:		
Common stock - $0.0001 par value; 190,000 shares authorized, 45,303 and 44,248 shares issued and outstanding at September 30, 2022, and December 31, 2021, respectively	16	15
Additional paid-in capital	489,867	470,760
Accumulated other comprehensive loss	(4,070)	(587)
Accumulated deficit	(199,975)	(168,055)
Total stockholders' equity	285,838	302,133
Total liabilities and stockholders' equity	$ 348,553	$ 373,618

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Products	$ 48,042	$ 54,393	$ 147,283	$ 155,289
Development	12,051	17,842	38,096	47,404
Total revenue	60,093	72,235	185,379	202,693
Cost of revenue:				
Products	35,350	34,193	104,801	98,828
Development	11,267	16,647	35,540	44,500
Total cost of revenue	46,617	50,840	140,341	143,328
Gross profit	13,476	21,395	45,038	59,365
Operating expenses:				
Research and development	12,716	14,838	40,215	40,830
Sales, general, and administrative	13,741	13,316	36,430	40,087
Total operating expenses	26,457	28,154	76,645	80,917
Loss from operations	(12,981)	(6,759)	(31,607)	(21,552)
Other income (expense):				
Interest income (expense), net	167	(20)	238	(126)
Other income (loss), net	(31)	102	(108)	246
Loss before income taxes	(12,845)	(6,677)	(31,477)	(21,432)
Income tax expense (benefit)	110	203	443	(513)
Net loss	$ (12,955)	$ (6,880)	$ (31,920)	$ (20,919)
Net loss per share, basic and diluted	$ (0.29)	$ (0.16)	$ (0.72)	$ (0.50)
Shares used in per share calculations, basic and diluted	44,786	42,884	44,289	41,759

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (12,955)	$ (6,880)	$ (31,920)	$ (20,919)
Other comprehensive loss:				
Foreign currency translation adjustments, net of tax	(1,709)	(378)	(3,673)	(543)
Unrealized gains on available-for-sale securities	190	—	190	—
Comprehensive loss	$ (14,474)	$ (7,258)	$ (35,403)	$ (21,462)

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2022									
	Common stock			Additional paid-in capital		Accumulated other comprehensive loss		Accumulated deficit		Total stockholders' equity
	Shares		Amount							
Balance, June 30, 2022	45,074	$	15	$ 483,410	$	(2,551)	$	(187,020)	$	293,854
Net loss	—		—	—		—		(12,955)		(12,955)
Issuance of common stock pursuant to exercise of stock options	86		1	383		—		—		384
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	153		—	(1,421)		—		—		(1,421)
Restricted stock awards modified in connection with performance achievement	(10)		—	—		—		—		—
Stock-based compensation	—		—	7,495		—		—		7,495
Unrealized gains on available-for-sale securities	—		—	—		190		—		190
Cumulative translation adjustment, net of tax	—		—	—		(1,709)		—		(1,709)
Balance, September 30, 2022	45,303	$	16	$ 489,867	$	(4,070)	$	(199,975)	$	285,838

	Nine Months Ended September 30, 2022									
	Common stock			Additional paid-in capital		Accumulated other comprehensive loss		Accumulated deficit		Total stockholders' equity
	Shares		Amount							
Balance, December 31, 2021	44,248	$	15	$ 470,760	$	(587)	$	(168,055)	$	302,133
Net loss	—		—	—		—		(31,920)		(31,920)
Issuance of common stock pursuant to exercise of stock options	557		1	1,145		—		—		1,146
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	530		—	(3,967)		—		—		(3,967)
Restricted stock awards forfeited in connection with transition agreement	(140)		—	—		—		—		—
Restricted stock awards modified in connection with performance achievement	(10)		—	—		—		—		—
Issuance of common stock under the Employee Stock Purchase Plan	118		—	1,201		—		—		1,201
Stock-based compensation	—		—	20,728		—		—		20,728
Unrealized gains on available-for-sale securities	—		—	—		190		—		190
Cumulative translation adjustment, net of tax	—		—	—		(3,673)		—		(3,673)
Balance, September 30, 2022	45,303	$	16	$ 489,867	$	(4,070)	$	(199,975)	$	285,838

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

	Three Months Ended September 30, 2021					
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, June 30, 2021	43,181	$ 15	$ 457,480	$ (424)	$ (152,425)	$ 304,646
Net loss	—	—	—	—	(6,880)	(6,880)
Issuance of common stock pursuant to exercise of stock options	193	—	205	—	—	205
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	502	—	(3,667)	—	—	(3,667)
Stock-based compensation	—	—	10,072	—	—	10,072
Cumulative translation adjustment, net of tax	—	—	—	(378)	—	(378)
Balance, September 30, 2021	43,876	$ 15	$ 464,090	$ (802)	$ (159,305)	$ 303,998

	Nine Months Ended September 30, 2021					
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2020	39,793	$ 15	$ 358,544	$ (259)	$ (138,386)	$ 219,914
Net loss	—	—	—	—	(20,919)	(20,919)
Proceeds from follow-on offering, net of offering costs	2,537	—	82,354	—	—	82,354
Issuance of common stock pursuant to exercise of stock options	746	—	975	—	—	975
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	767	—	(8,265)	—	—	(8,265)
Issuance of common stock under the Employee Stock Purchase Plan	33	—	750	—	—	750
Stock-based compensation	—	—	29,732	—	—	29,732
Cumulative translation adjustment, net of tax	—	—	—	(543)	—	(543)
Balance, September 30, 2021	43,876	$ 15	$ 464,090	$ (802)	$ (159,305)	$ 303,998

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	$ (31,920)	$ (20,919)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	8,135	6,670
Amortization	3,492	4,641
Reduction in carrying amount of right-of-use assets	2,369	2,435
Provision for (recoveries of) losses on accounts receivable	2	(70)
Stock-based compensation	20,728	29,732
Deferred income taxes	(1)	(11)
Loss on disposal of assets	—	3
Unrealized gain on available-for-sale securities	(190)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,431)	(4,580)
Inventory	(8,761)	(16,169)
Prepaid expenses and other current assets	1,091	(5,542)
Other assets, net	(308)	(437)
Accounts payable	(5,792)	9,699
Accrued and other long-term liabilities	1,219	907
Deferred revenues	142	(925)
Lease liabilities	(1,241)	(2,156)
Non-current income taxes payable	(86)	(591)
Net cash provided by (used in) operating activities	(14,552)	2,687
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(664)	(291)
Purchases of property, plant and equipment	(16,442)	(13,636)
Acquisition of intangible assets and capitalization of patents	(359)	(303)
Purchase of marketable securities	(50,000)	—
Net cash used in investing activities	(67,465)	(14,230)
Cash flows from financing activities:		
Proceeds from public offerings, net of offering costs	—	82,354
Principal payments on term loan, debt and financing leases	—	(428)
Payment of contingent consideration related to acquisition	—	(326)
Proceeds from employee stock plan purchases	1,201	750
Proceeds from stock option exercises	1,146	975
Tax payments related to stock award issuances	(3,967)	(8,265)
Net cash provided by (used in) financing activities	(1,620)	75,060
Effect of exchange rate changes on cash	(712)	(256)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(84,349)	63,261
Cash, cash equivalents, and restricted cash, beginning of period	146,784	102,573
Cash, cash equivalents, and restricted cash, end of period	$ 62,435	$ 165,834
Supplemental disclosures:		
Cash paid for interest, net	$ —	$ 116
Cash paid for income taxes	250	434
Operating cash outflows from operating leases	2,828	2,555
Right-of-use assets obtained in exchange for lease liabilities	2,242	7,348
Accrued purchases of property, equipment and patents	2,468	2,287

See accompanying notes to consolidated financial statements.

nLIGHT, Inc.
Notes to Consolidated Financial Statements

Note 1 - Basis of Presentation and New Accounting Pronouncements

Basis of Presentation

The accompanying unaudited consolidated financial statements of nLIGHT, Inc. and our wholly-owned subsidiaries 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 Annual Report on Form 10-K for the year ended December 31, 2021.

Critical Accounting Policies

Our critical accounting policies have not materially changed during the nine months ended September 30, 2022, from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

New Accounting Pronouncements

None.

Note 2 - Acquisition

On July 30, 2020, we acquired the outstanding shares of OPI Photonics S.r.l. (OPI), an Italian limited liability company, for cash consideration of $1.6 million, $0.2 million of which was paid at closing with the remaining $1.4 million to be paid over 24 months. The final payment to OPI of $0.7 million was made during the third quarter of 2022.

Note 3 - Revenue

We recognize revenue upon transferring control of products and services and the amounts recognized reflect the consideration we expect to be entitled to receive in exchange for these products and services. We consider customer purchase orders, which in some cases are governed by master sales agreements, to be the contracts with a customer. As part of our consideration of the contract, we evaluate certain factors, including the customer's ability to pay (or credit risk). For each contract, we consider the promise to transfer products, each of which is distinct, as the identified performance obligations.

We allocate the transaction price to each distinct product based on its relative standalone selling price. Master sales agreements or purchase orders from customers could include a single product or multiple products. Regardless, the contracted price with the customer is agreed to at the individual product level outlined in the customer contract or purchase order. We do not bundle prices; however, we do negotiate with customers on pricing for the same products based on a variety of factors (e.g., level of contractual volume). We have concluded that the prices negotiated with each individual customer are representative of the stand-alone selling price of the product.

We often receive orders with multiple delivery dates that may extend across several reporting periods. We allocate the transaction price of the contract to each delivery based on the product standalone selling price and invoice for each scheduled delivery upon shipment or delivery and recognize revenues for such delivery at that point, assuming transfer of control has occurred. Rights of return generally are not included in customer contracts. Accordingly, product revenue is recognized upon shipment or delivery, as applicable, and transfer of control. Rights of return are evaluated as they occur.

Revenues recognized at a point in time consist of sales of semiconductor lasers, fiber lasers and other related products. Revenues recognized over time generally consist of development arrangements that are structured based on our costs incurred. Because control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. We generally use the cost-to-cost measure of progress for our contracts because it best depicts the transfer of control to the customer. Billing under these arrangements generally occurs within one month after the work is completed.

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Industrial	$ 22,217	$ 26,737	$ 68,112	$ 73,044
Microfabrication	17,682	17,695	51,416	53,184
Aerospace and Defense	20,194	27,803	65,851	76,465
	$ 60,093	$ 72,235	$ 185,379	$ 202,693

Sales by Geography

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
North America	$ 32,793	$ 37,430	$ 103,619	$ 101,659
China	5,230	13,709	17,041	48,045
Rest of World	22,070	21,096	64,719	52,989
	$ 60,093	$ 72,235	$ 185,379	$ 202,693

Sales by Timing of Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Point in time	$ 45,268	$ 53,070	$ 138,931	$ 150,187
Over time	14,825	19,165	46,448	52,506
	$ 60,093	$ 72,235	$ 185,379	$ 202,693

Our contract assets and liabilities are as follows (in thousands):

	Balance Sheet Classification	As of	
		September 30, 2022	December 31, 2021
Contract assets	Prepaid expenses and other current assets	$ 7,481	$ 9,657
Contract liabilities	Deferred revenues and other long-term liabilities	2,758	2,358

During the three and nine months ended September 30, 2022, we recognized revenue of $0.1 million and $1.6 million, respectively, that was included in the deferred revenue balances at the beginning of the period 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 our revenues for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
U.S. Government	16%	23%	16%	21%
Marubun Corporation	11%	(1)	(1)	(1)

(1)Represents less than 10% of total revenues.

Financial instruments that potentially expose us to concentrations of credit risk consist principally of accounts receivable. As of September 30, 2022, and December 31, 2021, one customer accounted for approximately 16% and two customers accounted for approximately 33%, respectively, of net accounts receivable. No other customers accounted for 10% or more of net accounts receivable at either date.

Note 5 - Marketable Securities

Marketable securities consist primarily of highly liquid investments with maturities of greater than 90 days when purchased. Our marketable securities are considered available-for-sale as they represent investments of cash and are available for current operations. As such, they are included as current assets on our Consolidated Balance Sheets at fair value with unrealized gains and losses included in accumulated other comprehensive loss. Any unrealized gains and losses that are considered to be other-than-temporary are recorded in other income (loss), net on our Consolidated Statements of Operations. Realized gains and losses on the sale of marketable securities are determined using the specific-identification method and recorded in other income (loss), net on our Consolidated Statements of Operations.

Unrealized gains were $0.2 million in both the three and nine months ended September 30, 2022. These unrealized gains are considered temporary and are reflected in the Statements of Comprehensive Loss.

See Note 6 for additional information.

Note 6 - Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments, including cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities are shown at cost which approximates fair value due to the short-term nature of these instruments. The fair value of our term and revolving loans approximates the carrying value due to the variable market rate used to calculate interest payments.

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.

Our 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 and marketable securities. Our fair value hierarchy for our financial instruments was as follows (in thousands):

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market securities	$ 39,139	$ —	$ —	$ 39,139
Commercial paper	55	—	—	55
	39,194	—	—	39,194
Marketable Securities:				
U.S. treasuries	50,190	—	—	50,190
Total	$ 89,384	$ —	$ —	$ 89,384

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market securities	$ 126,900	$ —	$ —	$ 126,900
Commercial paper	236	—	—	236
Total	$ 127,136	$ —	$ —	$ 127,136

Cash Equivalents

The fair value of cash equivalents is determined based on quoted market prices for similar or identical securities.

Marketable Securities

We classify our marketable securities as available-for-sale and value them utilizing a market approach that uses observable inputs without applying significant judgment.

Note 7 - Inventory

Inventory is stated at the lower of average cost (principally standard cost, which approximates actual cost on a first-in, first-out basis) and net realizable value. Inventory includes raw materials and components that may be specialized in nature and subject to obsolescence. On a quarterly basis, we review inventory quantities on hand in comparison to our past consumption, recent purchases, and other factors to determine what inventory quantities, if any, may not be sellable. Based on this analysis, we write down the affected inventory value for estimated excess and obsolescence charges. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Inventory consisted of the following (in thousands):

	As of	
	September 30, 2022	December 31, 2021
Raw materials	$ 38,404	$ 32,185
Work in process and semi-finished goods	24,213	24,642
Finished goods	18,043	16,919
	$ 80,660	$ 73,746

Note 8 - Property, Plant and Equipment

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

	Useful life (years)	As of September 30, 2022	As of December 31, 2021
Automobile	3	$ 109	$ 114
Computer hardware and software	3 - 5	8,371	6,594
Manufacturing and lab equipment	2 - 7	88,972	81,130
Office equipment and furniture	5 - 7	2,324	2,361
Leasehold and building improvements	2 - 12	30,868	28,125
Buildings	30	9,392	9,392
Land	N/A	3,399	3,399
		143,435	131,115
Accumulated depreciation		(80,203)	(75,014)
		$ 63,232	$ 56,101

Note 9 - Intangible Assets and Goodwill

Intangible Assets

The details of definite lived intangible assets were as follows (in thousands):

	Estimated useful life (in years)	As of September 30, 2022	As of December 31, 2021
Patents	3 - 5	$ 6,288	$ 5,986
Development programs	2 - 4	7,200	7,200
Developed technology	5	2,736	3,038
		16,224	16,224
Accumulated amortization		(11,548)	(9,526)
		$ 4,676	$ 6,698

Amortization related to intangible assets was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Amortization expense	$ 660	$ 1,026	$ 2,147	$ 3,068

Estimated amortization expense for future years is as follows (in thousands):

Remainder of 2022	$ 737
2023	2,209
2024	900
2025	511
2026	319
	$ 4,676

Goodwill

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

	Laser Products	Advanced Development	Totals
Balance, December 31, 2021	2,172	10,248	12,420
Currency exchange rate adjustment	(107)	—	(107)
Balance, September 30, 2022	$ 2,065	$ 10,248	$ 12,313

Note 10 - Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of	
	September 30, 2022	December 31, 2021
Accrued payroll and benefits	$ 10,492	$ 10,915
Product warranty, current	2,491	2,286
Other accrued expenses	1,565	1,529
	$ 14,548	$ 14,730

Note 11 - Product Warranties

We provide warranties on certain products and record 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 our estimate of future costs. The current portion of our product warranty liability is included in the accrued liabilities and the long-term portion is included in other long-term liabilities in our Consolidated Balance Sheets.

Product warranty liability activity was as follows for the periods presented (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Product warranty liability, beginning	$ 5,371	$ 4,711
Warranty charges incurred, net	(1,023)	(1,699)
Provision for warranty charges, net of adjustments	971	2,431
Product warranty liability, ending	5,319	5,443
Less: current portion of product warranty liability	(2,491)	(2,251)
Non-current portion of product warranty liability	$ 2,828	$ 3,192

Note 12 - Commitments and Contingencies

Leases
See Note 13.

Legal Matters
On March 25, 2022, Lumentum Operations LLC filed a complaint against nLIGHT, Inc. and certain of its employees in the U.S. District Court for the Western District of Washington. The complaint alleges that Lumentum is the partial or full owner of certain of our patents and requests corresponding relief from the court. We are vigorously defending against Lumentum’s allegations.

From time to time, we may be subject to various other legal proceedings and claims in the ordinary course of business. We do not believe the ultimate resolution of these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Note 13 - Leases

We lease real estate space under non-cancelable operating lease agreements for commercial and industrial space. Facilities-related operating leases have remaining terms of 0.1 to 12.7 years, and some leases include options to extend up to 15 years. Other leases for automobiles, manufacturing and office and computer equipment have remaining lease terms of 0.3 to 4.8 years. These leases are primarily operating leases; financing leases are not material. We did not include any renewal options in our lease terms for calculating the lease liabilities as we are not reasonably certain we will exercise the options at this time. The weighted-average remaining lease term for the lease obligations was 8 years as of September 30, 2022, 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Lease expense:				
Operating lease expense	$ 911	$ 968	$ 2,907	$ 2,933
Short-term lease expense	185	172	437	456
Variable and other lease expense	224	192	659	549
	$ 1,320	$ 1,332	$ 4,003	$ 3,938

Future minimum payments under our non-cancelable lease obligations were as follows as of September 30, 2022 (in thousands):

Remainder of 2022	$ 972
2023	3,247
2024	2,854
2025	2,039
2026	1,655
Thereafter	8,461
Total minimum lease payments	19,228
Less: interest	(3,016)
Present value of net minimum lease payments	16,212
Less: current portion of lease liabilities	(2,697)
Total long-term lease liabilities	$ 13,515

Note 14 - 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, 2021	753	$ 25.63
Awards vested	(271)	22.77
Awards forfeited	(140)	25.21
Awards modified	(10)	22.54
RSAs at September 30, 2022	332	28.24

RSAs forfeited were in connection with our former chief financial officer's transition agreement dated January 18, 2022.

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
RSUs at December 31, 2021	2,799	$ 24.41
Awards granted	1,328	11.67
Awards vested	(839)	23.93
Awards forfeited	(167)	25.28
RSUs at September 30, 2022	3,122	19.09

The total fair value of RSAs and RSUs vested during the nine months ended September 30, 2022, was $6.2 million and $20.1 million, respectively. Awards outstanding as of September 30, 2022 include 740,199 performance-based awards that will vest upon meeting certain performance criteria.

Stock Options

The following table summarizes our stock option activity during the nine months ended September 30, 2022 (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, 2021	2,454	$1.61	4.4	$54,815
Options exercised	(557)	$2.06		
Options canceled	(42)	$9.27		
Outstanding, September 30, 2022	1,855	$1.31	3.7	$15,116
Options exercisable at September 30, 2022	1,849	$1.28	3.6	$15,111
Options vested as of September 30, 2022, and expected to vest after September 30, 2022	1,855	$1.31	3.7	$15,116

Total intrinsic value of options exercised for the nine months ended September 30, 2022 and 2021, was $7.5 million and $23.3 million, respectively. We received proceeds of $1.1 million and $1.0 million from the exercise of options for the nine months ended September 30, 2022 and 2021, respectively.

Employee Stock Purchase Plan

Information related to activity under our Employee Stock Purchase Plan was as follows (shares in thousands):

	Nine Months Ended September 30, 2022
Shares issued	118
Weighted-average per share purchase price	$ 10.15
Weighted-average per share discount from the fair value of our common stock on date of issuance	$ 1.79

Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues	$ 712	$ 740	$ 2,105	$ 1,780
Research and development	3,169	3,782	9,408	10,408
Sales, general and administrative	3,614	5,550	9,215	17,544
	$ 7,495	$ 10,072	$ 20,728	$ 29,732

Unrecognized Compensation Costs

As of September 30, 2022, total unrecognized stock-based compensation was $51.6 million, which will be recognized over an average expected recognition period of 2.3 years.

Common Stock Repurchase Plan

On November 14, 2019, our Board of Directors authorized the repurchase of up to $10.0 million of our outstanding shares of common stock. The authorization does not have an expiration date. As of September 30, 2022, no repurchases had been executed under the program.

Note 15 - Segment Information

We operate 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 periods presented (dollars in thousands):

	Three Months Ended September 30, 2022			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	$ 48,042	$ 12,051	$ —	$ 60,093
Gross profit	$ 13,404	$ 784	$ (712)	$ 13,476
Gross margin	27.9 %	6.5 %	NM*	22.4 %

	Nine Months Ended September 30, 2022			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	$ 147,283	$ 38,096	$ —	$ 185,379
Gross profit	$ 44,587	$ 2,556	$ (2,105)	$ 45,038
Gross margin	30.3 %	6.7 %	NM*	24.3 %

	Three Months Ended September 30, 2021			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	$ 54,393	$ 17,842	$ —	$ 72,235
Gross profit	$ 20,940	$ 1,195	$ (740)	$ 21,395
Gross margin	38.5 %	6.7 %	NM*	29.6 %

	Nine Months Ended September 30, 2021			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	$ 155,289	$ 47,404	$ —	$ 202,693
Gross profit	$ 58,241	$ 2,904	$ (1,780)	$ 59,365
Gross margin	37.5 %	6.1 %	NM*	29.3 %

*NM = not meaningful

Corporate and Other is unallocated expenses related to stock-based compensation.

There have been no material changes to the geographic locations of our 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, 2021.

Note 16 - Net Loss per Share

Basic and diluted net loss and the number of shares used for basic and diluted net loss calculations were the same for all periods presented because we were in a loss position.

The following potentially dilutive securities were not included in the calculation of diluted shares as the effect would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Restricted stock units and awards	701	2,195	1,046	2,547
Common stock options	1,676	2,544	2,052	2,717
	2,377	4,739	3,098	5,264

Note 17 - Subsequent Event

In October 2022, we gave notice to employees at our Shanghai manufacturing facility of a reduction in force. A severance charge of approximately $0.9 million will be recorded in the fourth quarter of 2022.

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: our business model and strategic plans; the impact of the COVID-19 pandemic and the related lockdown in Shanghai on our business; our future financial performance; demand for our semiconductor and fiber laser solutions; our ability to develop innovative products; our expectations regarding product volumes and the introduction of new products; our technology and new product research and development activities; the impact of inflation; the impact of seasonality; the effect on our business of litigation to which we are or may become a party; and the sufficiency of our existing liquidity sources to meet our cash needs.

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., is a leading provider of high-power semiconductor and fiber lasers for industrial, microfabrication, and aerospace and defense applications. Headquartered in Camas, Washington, we design, develop, and manufacture the critical elements of our lasers, and believe our vertically integrated business model enables us to rapidly introduce innovative products, control our costs and protect our intellectual property.

We operate in two reportable segments consisting of the Laser Products segment and the Advanced Development segment. Sales of our semiconductor lasers, fiber lasers and directed energy products are included in the Laser Products segment, while revenue earned from research and development contracts are included in the Advanced Development segment.

Revenues decreased to $185.4 million in the nine months ended September 30, 2022 compared to $202.7 million in the same period of 2021 as a result of a decrease in product sales to customers in China and development revenue, partially offset by an increase in product sales to customers outside of China. We generated a net loss of $31.9 million for the nine months ended September 30, 2022 compared to a net loss of $20.9 million for the same period of 2021.

Factors Affecting Our Performance

Impact of the COVID-19 Pandemic

The COVID-19 pandemic and related global liquidity concerns and macro-economic volatility continues to adversely impact our end-markets, including reduced economic activity and demand for our products, and delays in new capital expenditure decisions and implementations. While our manufacturing operations generally remained open throughout the pandemic, including our manufacturing facilities in the United States, the COVID-related lockdown of Shanghai by the Chinese government forced us to halt operations in our Shanghai manufacturing facility for approximately two months during the second quarter of 2022. Our Shanghai facility manufactures products that are sold directly to end customers as well as components that are shipped to our facilities in the United States to be integrated into finished products. Although we are increasing our manufacturing capabilities in the United States, our Shanghai manufacturing facility remains an important part of our global operations. The closure of our Shanghai facility during the second quarter of 2022 has had a negative impact on our 2022 year-to-date financial results, and any additional closures, or partial closures, could have an adverse impact on future periods.

There are ongoing risks to our business that depend on the progression of the COVID-19 pandemic, including risks related to the potential return of limitations on certain government functions, business activities and person-to-person interactions. Global trade conditions may further adversely impact us and our industry. For example, pandemic-related issues exacerbated port congestion and caused intermittent supplier shutdowns and delays, resulting in additional expenses and challenges to obtaining critical parts. The full impact of the COVID-19 pandemic on our financial condition and results of operations will depend on future events and developments.

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 and commercialize that technology in the future.

Demand for our products also fluctuates based on market cycles, continuously evolving industry supply chains, trade and tariff terms, as well as evolving competitive dynamics in each of our end-markets. 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. Although we anticipate further increases in product volumes and the continued introduction of new and higher value products, ASP reduction 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, fiber laser and directed energy 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 product 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.

Our Development gross profit varies with the type and terms of contracts, contract volume, project mix, and progress on projects during the period. Most of our Development contracts are structured as cost plus fixed fee due to the technical complexity of the research and development services.

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 (which may not add up due to rounding):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Revenue:				
Products	79.9 %	75.3 %	79.4 %	76.6 %
Development	20.1	24.7	20.6	23.4
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Products	58.8	47.3	56.5	48.8
Development	18.7	23.1	19.2	21.9
Total cost of revenue	77.5	70.4	75.7	70.7
Gross profit	22.5	29.6	24.3	29.3
Operating expenses:				
Research and development	21.2	20.5	21.7	20.1
Sales, general, and administrative	22.9	18.4	19.7	19.8
Total operating expenses	44.1	38.9	41.4	39.9
Loss from operations	(21.6)	(9.3)	(17.1)	(10.6)
Other income (expense):				
Interest income (expense), net	0.3	—	0.1	(0.1)
Other income (loss), net	(0.1)	0.1	(0.1)	0.1
Loss before income taxes	(21.4)	(9.2)	(17.1)	(10.6)
Income tax expense (benefit)	0.2	0.3	0.2	(0.3)
Net loss	(21.6)%	(9.5)%	(17.3)%	(10.3)%

Revenues by End Market

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

	Three Months Ended September 30,				Change	
	2022	% of Revenue	2021	% of Revenue	$	%
Industrial	$ 22,217	37.0 %	$ 26,737	37.0 %	$ (4,520)	(16.9)%
Microfabrication	17,682	29.4	17,695	24.5	(13)	(0.1)
Aerospace and Defense	20,194	33.6	27,803	38.5	(7,609)	(27.4)
	$ 60,093	100.0 %	$ 72,235	100.0 %	$ (12,142)	(16.8)%

	Nine Months Ended September 30,				Change	
	2022	% of Revenue	2021	% of Revenue	Amount	%
Industrial	$ 68,112	36.7 %	$ 73,044	36.0 %	$ (4,932)	(6.8)%
Microfabrication	51,416	27.7	53,184	26.2	(1,768)	(3.3)
Aerospace and Defense	65,851	35.5	76,465	37.8	(10,614)	(13.9)
	$ 185,379	100.0 %	$ 202,693	100.0 %	$ (17,314)	(8.5)%

The decreases in revenue from the Industrial and Microfabrication markets for the three and nine months ended September 30, 2022, compared to the same periods of 2021, were driven by decreases in unit sales in China, partially offset by increases in unit sales outside of China. The closure of our Shanghai facility for approximately two months during the second quarter of 2022 due to the COVID-19 pandemic had a negative impact on year-to-date sales in China. The decreases in revenue from the Aerospace and Defense market for the three and nine months ended September 30, 2022, compared to the same periods of 2021, were due to decreased activity on research and development contracts, and a decrease in unit sales for the third quarter of 2022 compared to the same period of 2021 due primarily to supply chain disruptions.

Revenues by Segment

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

	Three Months Ended September 30,				Change	
	2022	% of Revenue	2021	% of Revenue	$	%
Laser Products	$ 48,042	79.9 %	$ 54,393	75.3 %	$ (6,351)	(11.7)%
Advanced Development	12,051	20.1	17,842	24.7	(5,791)	(32.5)
	$ 60,093	100.0 %	$ 72,235	100.0 %	$ (12,142)	(16.8)%

	Nine Months Ended September 30,				Change	
	2022	% of Revenue	2021	% of Revenue	Amount	%
Laser Products	$ 147,283	79.4 %	$ 155,289	76.6 %	$ (8,006)	(5.2)%
Advanced Development	38,096	20.6	47,404	23.4	(9,308)	(19.6)
	$ 185,379	100.0 %	$ 202,693	100.0 %	$ (17,314)	(8.5)%

The decreases in Laser Products revenue for the three and nine months ended September 30, 2022, compared to the same periods of 2021, were driven by decreased units sales across each end market as discussed above. The decreases in Advanced Development revenue for the three and nine months ended September 30, 2022, compared to the same periods of 2021, were primarily due to decreased activity on research and development contracts. Most of our Advanced Development revenue is generated from cost plus fixed fee research and development contracts, and all Advanced Development revenue is included in the Aerospace and Defense market.

Revenues by Geographic Region

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

	Three Months Ended September 30,				Change	
	2022	% of Revenue	2021	% of Revenue	$	%
North America	$ 32,793	54.6 %	$ 37,430	51.8 %	$ (4,637)	(12.4)%
China	5,230	8.7	13,709	19.0	(8,479)	(61.8)
Rest of World	22,070	36.6	21,096	29.2	974	4.6
	$ 60,093	100.0 %	$ 72,235	100.0 %	$ (12,142)	(16.8)%

	Nine Months Ended September 30,				Change	
	2022	% of Revenue	2021	% of Revenue	Amount	%
North America	$ 103,619	55.9 %	$ 101,659	50.2 %	$ 6,597	10.3 %
China	17,041	9.2	48,045	23.7	(22,525)	(65.6)
Rest of World	64,719	34.9	52,989	26.1	10,756	33.7
	$ 185,379	100.0 %	$ 202,693	100.0 %	$ (5,172)	(4.0)%

Geographic revenue information is based on the location to which we ship our products. The decrease in North America revenue for the three months ended September 30, 2022, compared to the same period of 2021, is a result of decreased revenue from the Aerospace and Defense market, partially offset by increased revenue from the Industrial and Microfabrication markets. The increase in North America revenue for the nine months ended September 30, 2022, compared to the same period of 2021, was the result of increased revenue from the Industrial and Microfabrication markets, partially offset by decreased revenue from the Aerospace and Defense market.

The increase in Rest of World revenue for the three months ended September 30, 2022, compared to the same period of 2021, was due to increased revenue from the Microfabrication market, partially offset by decreased revenue from the Industrial market. The increase in Rest of World revenue for the nine months ended September 30, 2022, compared to the same period of 2021, was due to increased revenue from the Microfabrication and Industrial markets.

The decreases in China revenue for the three and nine months ended September 30, 2022, compared to the same periods of 2021, was the result of decreased sales in the Industrial and Microfabrication markets, primarily as a result of deteriorating market conditions. The closure of our Shanghai facility for approximately two months during the second quarter of 2022 due to the COVID-19 pandemic also had a negative impact on year-to-date sales in China.

Cost of Revenues and Gross Margin

Cost of Laser Products revenue consists primarily of manufacturing materials, labor, shipping and handling costs, tariffs and manufacturing-related overhead. We order materials and supplies based on backlog and forecasted demand from our customers. We expense all warranty costs and inventory provisions as cost of revenues.

Cost of Advanced Development revenue consists of materials, labor, subcontracting costs, and an allocation of indirect costs including overhead and general and administrative.

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

	Three Months Ended September 30, 2022			
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	$ 13,404	$ 784	$ (712)	$ 13,476
Gross margin	27.9 %	6.5 %	NM*	22.4 %

	Nine Months Ended September 30, 2022			
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	$ 44,587	$ 2,556	$ (2,105)	$ 45,038
Gross margin	30.3 %	6.7 %	NM*	24.3 %

	Three Months Ended September 30, 2021			
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	$ 20,940	$ 1,195	$ (740)	$ 21,395
Gross margin	38.5 %	6.7 %	NM*	29.6 %

	Nine Months Ended September 30, 2021			
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	$ 58,241	$ 2,904	$ (1,780)	$ 59,365
Gross margin	37.5 %	6.1 %	NM*	29.3 %

*NM = not meaningful

The decreases in Laser Products gross margin for the three and nine months ended September 30, 2022, compared to the same periods of 2021, were driven by sales mix and decreased factory utilization, increased investments in U.S. based manufacturing, and increased production and freight costs, partially offset by an increase in duty reclaim. The changes in Advanced Development gross margin for the three and nine months ended September 30, 2022, compared to the same periods of 2021, are not material and primarily the result of changes in the composition of research and development contracts.

Operating Expenses

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

Research and Development

	Three Months Ended September 30,		Change	
	2022	2021	$	%
Research and development	$ 12,716	$ 14,838	$ (2,122)	(14.3)%

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Research and development	$ 40,215	$ 40,830	$ (615)	(1.5)%

The decrease in research and development expense for the three months ended September 30, 2022, compared to the same period in 2021, was driven by a decrease in project-related expenses, a decrease in stock-based compensation of $0.6 million, and a decrease in purchased intangible amortization of $0.4 million. The decrease in research and development expense for the nine months ended September 30, 2022, compared to the same period in 2021, was primarily due to a decrease in stock-based compensation of $1.0 million and a decrease in purchased intangible amortization of $0.8 million, partially offset by an increase in salary costs and project-related expenses.

Sales, General and Administrative

	Three Months Ended September 30,		Change	
	2022	2021	$	%
Sales, general, and administrative	$ 13,741	$ 13,316	$ 425	3.2 %

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Sales, general, and administrative	$ 36,430	$ 40,087	$ (3,657)	(9.1)%

The increase in sales, general and administrative expense for the three months ended September 30, 2022, compared to the same period in 2021 was primarily due to increases in salary costs, professional service fees, facility expenses and decreases in administrative cost allocated to development projects, partially offset by a decrease in stock-based compensation of $1.9 million. The decrease in sales, general and administrative expense for the nine months ended September 30, 2022, compared to the same period in 2021 were driven by a decrease in stock-based compensation of $8.3 million, partially offset by increases in salary costs, professional service fees, facility expenses and decreases in administrative cost allocated to development projects. The decreases in stock-based compensation for the three and nine months ended September 30, 2022, compared to the same periods of 2021, were the result of forfeitures and decreases in expected achievement related to performance-based stock awards.

Interest Income (Expense), net

	Three Months Ended September 30,		Change	
	2022	2021	$	%
Interest income (expense), net	$ 167	$ (20)	$ 187	935.0%

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Interest income (expense), net	$ 238	$ (126)	$ 364	288.9 %

The increase in interest income, net, for the three and nine months ended September 30, 2022, compared to the same periods in 2021 was driven by increases in interest rates and the investment in marketable securities during the second quarter of 2022, as well as the payoff of our long-term debt in the third quarter of 2021.

Other Income (Loss), net

	Three Months Ended September 30,		Change	
	2022	2021	$	%
Other income (loss), net	$ (31)	$ 102	$ (133)	(130.4)%

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Other income (loss), net	$ (108)	$ 246	$ (354)	(143.9)%

Changes in other income (loss), net, are primarily attributable to changes in net realized and unrealized foreign exchange transactions resulting from currency rate fluctuations.

Income Tax Expense (Benefit)

	Three Months Ended September 30,		Change	
	2022	2021	$	%
Income tax expense (benefit)	$ 110	$ 203	$ (93)	(45.8)%

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Income tax expense (benefit)	$ 443	$ (513)	$ 956	186.4 %

We record income tax expense for taxes in our foreign jurisdictions including Finland, Italy, and Korea. While our tax expense is largely dependent on the geographic mix of earnings related to our foreign operations, we also record tax expense for uncertain tax positions taken and associated penalties and interest. 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 United States, Austria, and China, we continue to maintain a full valuation allowance in these jurisdictions as of September 30, 2022.

The decrease in income tax expense for the three months ended September 30, 2022 compared to the same period of 2021 was driven by lower profitability in foreign jurisdictions, while the increase in income tax expense for the nine months ended September 30, 2022, compared to the same period in 2021, was driven by a discrete tax benefit related to return to provision true ups and expiring statutes of limitations of unrecognized tax positions recorded in the second quarter of 2021.

Liquidity and Capital Resources

We had cash and cash equivalents of $62.2 million and $146.5 million as of September 30, 2022 and December 31, 2021, respectively. In addition, we had marketable securities of $50.2 million at September 30, 2022. Prior to the second quarter of 2022, we had no marketable securities.

For the nine months ended September 30, 2022, our principal uses of liquidity were to fund our working capital needs and purchase property, plant and equipment. 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. 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):

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by (used in) operating activities	$ (14,552)	$ 2,687
Net cash used in investing activities	(67,465)	(14,230)
Net cash provided by (used in) financing activities	(1,620)	75,060
Effect of exchange rate changes on cash	(712)	(256)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (84,349)	$ 63,261

Net Cash Provided by (Used in) Operating Activities

During the nine months ended September 30, 2022, net cash used in operating activities was $14.6 million, which was the result of a $31.9 million net loss and use of cash for working capital of $17.2 million, partially offset by non-cash expenses totaling $34.7 million related primarily to depreciation, amortization, and stock-based compensation. Changes in working capital were driven by a $3.4 million increase in accounts receivable, net, a $8.8 million increase in inventory, and a $5.8 million decrease in accounts payable. The increase in accounts receivable, net was primarily due to the timing of shipments and collections in the third quarter of 2022 compared to the fourth quarter of 2021. The increase in inventory was due to an expected increase in future sales and an increase in safety stock during 2022 to mitigate supply chain risks, lower demand primarily from China, and anticipated demand for recently introduced products. The decrease in accounts payable was due to a decrease in inventory purchasing in the third quarter of 2022 compared to the fourth quarter of 2021, and the timing of vendor payments.

During the nine months ended September 30, 2021, net cash provided by operating activities was $2.7 million, which was primarily driven by non-cash expenses totaling $43.4 million related to depreciation and amortization, stock-based compensation, and other items, a $9.7 million increase in accounts payable and a $0.9 million increase in accrued and other long-term liabilities. These items were partially offset by our net loss of $20.9 million and increases of $16.2 million in inventory and $4.6 million in accounts receivable. The increase in inventory was driven primarily by an expected increase in future period sales. The increase in accounts receivable was attributable to the increase in revenue and timing of shipments during the quarter. The increase in accounts payable was attributable to the increase in inventory and the timing of vendor payments.

Net Cash Used in Investing Activities

During the nine months ended September 30, 2022, net cash used in investing activities was $67.5 million, primarily resulting from the purchase of $50.0 million of marketable securities and $16.4 million of capital expenditures related to investments in directed energy, manufacturing equipment and facilities.

During the nine months ended September 30, 2021, net cash used in investing activities was $14.2 million, primarily resulting from $13.6 million of capital expenditures related to investments in manufacturing equipment and improvements to our corporate facility.

Net Cash Provided by (Used in) Financing Activities

During the nine months ended September 30, 2022, net cash used in financing activities was $1.6 million, which was primarily driven by $4.0 million of withholding tax payments related to the vesting of stock awards, partially offset by $2.3 million of proceeds from stock options exercises and employee stock plan purchases.

During the nine months ended September 30, 2021, net cash provided by financing activities was $75.1 million, which was primarily driven by our follow-on public offering of $82.4 million, net of offering costs, and $1.7 million of proceeds from stock options exercises and employee stock program purchases, partially offset by $8.3 million of withholding tax payments related to the vesting of stock awards.

Credit Facilities

We have a $40.0 million revolving line of credit, or LOC, with Pacific Western Bank dated September 24, 2018, which is secured by our assets and matures September 24, 2024.

The LOC agreement contains restrictive and financial covenants and bears an unused credit fee of 0.20% on an annualized basis. The interest rate on the LOC is based on the Prime Rate, minus a margin based on our liquidity levels. No amounts were outstanding under the LOC at September 30, 2022 and we were in compliance with all covenants.

Contractual Obligations

For the nine months ended September 30, 2022, our operating lease obligations decreased by approximately $1.5 million. There have been no other material changes to our contractual obligations as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Inflation

While we do not believe that inflation had a material effect on our business, financial condition or results of operations through September 30, 2022, we have experienced higher than expected increases in wages and other compensation costs, materials, and shipping costs during 2022. We expect these increases will continue to impact our cost structure. If our costs 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.

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, 2021. Other than the addition of marketable securities consisting of U.S. Treasuries to our investment portfolio, our exposure to market risk has not changed materially since December 31, 2021.

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 September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Internal Control

Control systems, including ours, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems’ objectives are being met. Further, the design of any control systems must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. 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.

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PART II

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, see Note 12, Commitments and Contingencies, to our consolidated financial statements included elsewhere in this report.

ITEM 1A. RISK FACTORS

For risk factors related to our business, reference is made to Item 1A, "Risk Factors," contained in Part I of our Annual Report on Form 10-K for the year ended December 31, 2021 and Item 1A, "Risk Factors," contained in Part II of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022. , except as described below.

We are subject to governmental export and import controls that could subject us to liability, impair our ability to compete and otherwise adversely affect our business, financial condition, results of operations and growth prospects.

The United States and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of certain products, technologies, and software. For example, the U.S. government recently announced new controls restricting the ability to send certain products and technology related to semiconductors, semiconductor manufacturing and supercomputing to China without an export license. These new controls including the licensing requirement also apply to certain hardware containing these specified integrated circuits, or ICs. In many cases, these licenses are subject to a policy of denial and will not be issued. The U.S. government also recently added additional entities in China to restricted party lists impacting the ability of U.S. companies to provide products and technology to these entities. These controls may impact our ability to export certain products and technology to China and restrict our ability to use certain ICs in our products. Additionally, these restrictions could disrupt the ability of China to produce semiconductors and other electronics and impact our ability to source components from China. It also is possible that the Chinese government will retaliate in ways that could impact our business.

We must export our products in compliance with U.S. export controls and we may not always be successful in obtaining necessary export licenses. Denials of export licenses or limitations imposed on our ability to export or sell our products imposed by these laws, may harm our international and domestic revenues. Furthermore, noncompliance with these laws could have negative consequences, including government investigations, penalties and reputational harm. Any failure to adequately comply with these laws could result in civil fines or suspension or loss of our export privileges, as well as substantial expense and diversion of management resources and attention, any of which could materially adversely affect our business, financial condition, results of operations and growth prospects.

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	
10.1	2018 Equity Incentive Plan—Form of Restricted Stock Unit Agreement (Performance-Based)	8-K	001-38462	10.1	July 8, 2022	
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	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)					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

\+ Indicates a management contract or compensatory plan or arrangement.

* 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)

November 4, 2022	By: /s/ SCOTT KEENEY
Date	Scott Keeney
	President and Chief Executive Officer
	(Principal Executive Officer)
November 4, 2022	By: /s/ JOSEPH CORSO
Date	Joseph Corso
	Chief Financial Officer
	(Principal Financial Officer)
November 4, 2022	By: /s/ JAMES NIAS
Date	James Nias
	Chief Accounting Officer
	(Principal Accounting Officer)

Exhibit 31.1

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: November 4, 2022

/s/ SCOTT KEENEY

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

Exhibit 31.2

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, Joseph Corso, 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: November 4, 2022

/s/ JOSEPH CORSO
Joseph Corso
Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

In connection with the filing of the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2022, 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 Joseph Corso, 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: November 4, 2022

/s/ SCOTT KEENEY
Scott Keeney
President, Chief Executive Officer and Chairman (Principal Executive Officer)

/s/ JOSEPH CORSO
Joseph Corso
Chief Financial Officer (Principal 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 the Company 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.