

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, 2023

or

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

For the transition period from to

Commission File Number 001-38462

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)

**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, 2023, the Registrant had 46,686,107 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of	
	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,087	\$ 57,826
Marketable securities	59,506	50,391
Accounts receivable, net of allowances of \$284 and \$290	35,516	37,913
Inventory	61,590	67,600
Prepaid expenses and other current assets	15,656	17,026
Total current assets	224,355	230,756
Restricted cash	255	252
Lease right-of-use assets	12,904	13,893
Property, plant and equipment, net	54,130	60,693
Intangible assets, net	2,166	4,041
Goodwill	12,367	12,376
Other assets, net	6,651	7,222
Total assets	<u>\$ 312,828</u>	<u>\$ 329,233</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 14,328	\$ 17,507
Accrued liabilities	14,179	12,820
Deferred revenues	2,017	1,407
Current portion of lease liabilities	3,049	2,758
Total current liabilities	33,573	34,492
Non-current income taxes payable	5,273	6,699
Long-term lease liabilities	11,451	12,852
Other long-term liabilities	3,012	4,345
Total liabilities	53,309	58,388
Stockholders' equity:		
Common stock - \$0.0001 par value; 190,000 shares authorized, 46,673 and 45,629 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	16	16
Additional paid-in capital	513,794	496,211
Accumulated other comprehensive loss	(3,225)	(2,748)
Accumulated deficit	(251,066)	(222,634)
Total stockholders' equity	259,519	270,845
Total liabilities and stockholders' equity	<u>\$ 312,828</u>	<u>\$ 329,233</u>

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,	
	2023	2022	2023	2022
Revenue:				
Products	\$ 38,103	\$ 48,042	\$ 118,802	\$ 147,283
Development	12,531	12,051	39,227	38,096
Total revenue	50,634	60,093	158,029	185,379
Cost of revenue:				
Products	29,015	35,350	84,813	104,801
Development	11,681	11,267	36,907	35,540
Total cost of revenue	40,696	46,617	121,720	140,341
Gross profit	9,938	13,476	36,309	45,038
Operating expenses:				
Research and development	10,744	12,716	34,049	40,215
Sales, general, and administrative	11,725	13,741	34,684	36,430
Total operating expenses	22,469	26,457	68,733	76,645
Loss from operations	(12,531)	(12,981)	(32,424)	(31,607)
Other income:				
Interest income, net	303	167	990	238
Other income (expense), net	536	(31)	1,997	(108)
Loss before income taxes	(11,692)	(12,845)	(29,437)	(31,477)
Income tax expense (benefit)	187	110	(1,005)	443
Net loss	<u>\$ (11,879)</u>	<u>\$ (12,955)</u>	<u>\$ (28,432)</u>	<u>\$ (31,920)</u>
Net loss per share, basic and diluted	<u>\$ (0.26)</u>	<u>\$ (0.29)</u>	<u>\$ (0.62)</u>	<u>\$ (0.72)</u>
Shares used in per share calculations, basic and diluted	<u>46,403</u>	<u>44,786</u>	<u>45,857</u>	<u>44,289</u>

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,	
	2023	2022	2023	2022
Net loss	\$ (11,879)	\$ (12,955)	\$ (28,432)	\$ (31,920)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(131)	(1,709)	(816)	(3,673)
Unrealized gains on available-for-sale securities	21	190	339	190
Comprehensive loss	<u>\$ (11,989)</u>	<u>\$ (14,474)</u>	<u>\$ (28,909)</u>	<u>\$ (35,403)</u>

See accompanying notes to consolidated financial statements.

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

Three Months Ended September 30, 2023						
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, June 30, 2023	46,503	\$ 16	\$ 507,649	\$ (3,115)	\$ (239,187)	\$ 265,363
Net loss	—	—	—	—	(11,879)	(11,879)
Issuance of common stock pursuant to exercise of stock options	61	—	53	—	—	53
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	109	—	(535)	—	—	(535)
Stock-based compensation	—	—	6,627	—	—	6,627
Unrealized gains on available-for-sale securities	—	—	—	21	—	21
Cumulative translation adjustment, net of tax	—	—	—	(131)	—	(131)
Balance, September 30, 2023	<u>46,673</u>	<u>\$ 16</u>	<u>\$ 513,794</u>	<u>\$ (3,225)</u>	<u>\$ (251,066)</u>	<u>\$ 259,519</u>

Nine Months Ended September 30, 2023						
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2022	45,629	\$ 16	\$ 496,211	\$ (2,748)	\$ (222,634)	\$ 270,845
Net loss	—	—	—	—	(28,432)	(28,432)
Issuance of common stock pursuant to exercise of stock options	278	—	385	—	—	385
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	632	—	(3,667)	—	—	(3,667)
Issuance of common stock under the Employee Stock Purchase Plan	134	—	1,220	—	—	1,220
Stock-based compensation	—	—	19,645	—	—	19,645
Unrealized gains on available-for-sale securities	—	—	—	339	—	339
Cumulative translation adjustment, net of tax	—	—	—	(816)	—	(816)
Balance, September 30, 2023	<u>46,673</u>	<u>\$ 16</u>	<u>\$ 513,794</u>	<u>\$ (3,225)</u>	<u>\$ (251,066)</u>	<u>\$ 259,519</u>

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	<u>45,303</u>	<u>\$ 16</u>	<u>\$ 489,867</u>	<u>\$ (4,070)</u>	<u>\$ (199,975)</u>	<u>\$ 285,838</u>

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	<u>45,303</u>	<u>\$ 16</u>	<u>\$ 489,867</u>	<u>\$ (4,070)</u>	<u>\$ (199,975)</u>	<u>\$ 285,838</u>

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (28,432)	\$ (31,920)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	9,292	8,135
Amortization	2,697	3,492
Reduction in carrying amount of right-of-use assets	947	2,369
(Recoveries of) provision for losses on accounts receivable	(2)	2
Stock-based compensation	19,645	20,728
Deferred income taxes	7	(1)
Loss on disposal of property, plant and equipment	525	—
Unrealized gain on available-for-sale securities	—	(190)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,308	(3,431)
Inventory	5,491	(8,761)
Prepaid expenses and other current assets	1,358	1,091
Other assets, net	(442)	(308)
Accounts payable	(2,079)	(5,792)
Accrued and other long-term liabilities	161	1,219
Deferred revenues	617	142
Lease liabilities	(1,076)	(1,241)
Non-current income taxes payable	(1,330)	(86)
Net cash provided by (used in) operating activities	9,687	(14,552)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	—	(664)
Purchases of property, plant and equipment	(4,386)	(16,442)
Acquisition of intangible assets and capitalization of patents	—	(359)
Purchase of marketable securities	(103,008)	(50,000)
Proceeds from maturities and sales of marketable securities	94,231	—
Net cash used in investing activities	(13,163)	(67,465)
Cash flows from financing activities:		
Proceeds from employee stock plan purchases	1,220	1,201
Proceeds from stock option exercises	385	1,146
Tax payments related to stock award issuances	(3,667)	(3,967)
Net cash used in financing activities	(2,062)	(1,620)
Effect of exchange rate changes on cash	(198)	(712)
Net decrease in cash, cash equivalents, and restricted cash	(5,736)	(84,349)
Cash, cash equivalents, and restricted cash, beginning of period	58,078	146,784
Cash, cash equivalents, and restricted cash, end of period	\$ 52,342	\$ 62,435
Supplemental disclosures:		
Cash paid for interest, net	\$ 20	\$ —
Cash paid for income taxes	270	250
Operating cash outflows from operating leases	2,890	2,828
Right-of-use assets obtained in exchange for lease liabilities	1,295	2,242
Accrued purchases of property, equipment and patents	561	2,468

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, 2022.

Critical Accounting Policies

Our critical accounting policies have not materially changed during the nine months ended September 30, 2023, from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

New Accounting Pronouncements

None.

Note 2 - 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, when transfer of control has occurred. As scheduled delivery dates are generally within one year, under the optional exemption provided by ASC 606-10-50-14a, revenues allocated to future shipments of partially completed contracts are not disclosed as performance obligations for point in time revenue. Further, we recognize, over time, revenue as per ASC 606-10-55-18 (invoice practical expedient) for our cost plus contracts and, accordingly, elect not to disclose information related to those performance obligations under ASC 606-10-50-14b. As of September 30, 2023, we had approximately \$33 million of performance obligations relating to firm fixed price contracts with scheduled delivery dates that extended beyond one year, which did not qualify for the aforementioned disclosure exemptions. We expect to recognize approximately 80% of these performance obligations by the end of 2024 and the remaining 20% in 2025.

Rights of return generally are not included in customer contracts. Accordingly, product revenue is recognized upon transfer of control at shipment or delivery, as applicable. 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. For long-term contracts, we estimate the total expected costs to complete the contract and recognize revenue based on the percentage of costs incurred at period end. Typically, revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, materials, subcontractors costs, other direct costs, and indirect costs applicable on government and commercial contracts.

Contract estimates are based on various assumptions to project the outcome of future events that may span several years. These assumptions include labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, the performance of subcontractors, and the availability and timing of funding from the customer. Billing under these arrangements generally occurs within one month of the costs being incurred or as milestones are reached.

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,	
	2023	2022	2023	2022
Industrial	\$ 19,607	\$ 22,217	\$ 56,078	\$ 68,112
Microfabrication	12,000	17,682	37,285	51,416
Aerospace and Defense	19,027	20,194	64,666	65,851
	<u>\$ 50,634</u>	<u>\$ 60,093</u>	<u>\$ 158,029</u>	<u>\$ 185,379</u>

Sales by Geography

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
North America	\$ 31,330	\$ 32,793	\$ 94,750	\$ 103,619
China	2,624	5,230	9,134	17,041
Rest of World	16,680	22,070	54,145	64,719
	<u>\$ 50,634</u>	<u>\$ 60,093</u>	<u>\$ 158,029</u>	<u>\$ 185,379</u>

Sales by Timing of Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Point in time	\$ 37,913	\$ 45,268	\$ 117,361	\$ 138,931
Over time	12,721	14,825	40,668	46,448
	<u>\$ 50,634</u>	<u>\$ 60,093</u>	<u>\$ 158,029</u>	<u>\$ 185,379</u>

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

	Balance Sheet Classification	As of	
		September 30, 2023	December 31, 2022
Contract assets	Prepaid expenses and other current assets	\$ 8,617	\$ 10,377
Contract liabilities	Deferred revenues and other long-term liabilities	3,477	2,455

Contract assets generally consist of revenue recognized on an over-time basis where revenue recognition has been met, but the amounts are subsequently billed and collected in the following period. In our services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals, which is generally monthly, or upon the achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets recorded in unbilled receivables and retentions on the Consolidated Balance Sheets. However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities recorded in customer advances on the Consolidated Balance Sheets. Contract liabilities are not a significant financing component as they are generally utilized to pay for contract costs within a one-year period or are used to ensure the customer meets contractual requirements. These assets and liabilities are reported on the Consolidated Balance Sheets on a contract-by-contract basis at the end of each reporting period. For our product revenue, we generally receive cash payments subsequent to satisfying the performance obligation via delivery of the product, resulting in billed accounts receivable. For our contracts, there are no significant gaps between the receipt of payment and the transfer of the associated goods and services to the customer for material amounts of consideration.

During the three and nine months ended September 30, 2023, we recognized revenue of \$0.3 million and \$1.4 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 3 - Concentrations of Credit and Other Risks

The following customer accounted for 10% or more of our revenues for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
U.S. Government	16%	16%	17%	16%

Financial instruments that potentially expose us to concentrations of credit risk consist principally of receivables from customers. As of September 30, 2023, and December 31, 2022, three and two customers accounted for a total of 39% and 29%, respectively, of net customer receivables. No other customers accounted for 10% or more of net customer receivables at either date.

Note 4 - Marketable Securities

Marketable securities consist primarily of highly liquid investments with original maturities of greater than 90 days when purchased. Our marketable securities are considered available-for-sale as they represent investments that are available to be sold 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, 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, net on our Consolidated Statements of Operations.

Realized gains were \$0.8 million and \$1.7 million for the three and nine months ended September 30, 2023, respectively. Unrealized gains were immaterial for the three months ended September 30, 2023 and \$0.3 million for the nine months ended September 30, 2023. These unrealized gains are considered temporary and are reflected in the Consolidated Statements of Comprehensive Loss. Unrealized gains were \$0.2 million for the three and nine months ended September 30, 2022.

See Note 5 for additional information.

Note 5 - 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, 2023			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market securities	\$ 21,502	\$ —	\$ —	21,502
Commercial paper	2,488	—	—	2,488
	23,990	—	—	23,990
Marketable Securities:				
U.S. treasuries	59,506	—	—	59,506
Total	\$ 83,496	\$ —	\$ —	83,496

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market securities	\$ 31,658	\$ —	\$ —	31,658
Commercial paper	656	—	—	656
	32,314	—	—	32,314
Marketable Securities:				
U.S. treasuries	50,391	—	—	50,391
Total	\$ 82,705	\$ —	\$ —	82,705

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 6 - 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, 2023	December 31, 2022
Raw materials	\$ 28,258	\$ 32,515
Work in process and semi-finished goods	20,914	19,056
Finished goods	12,418	16,029
	<u>\$ 61,590</u>	<u>\$ 67,600</u>

Note 7 - Property, Plant and Equipment

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

	Useful life (years)	As of	
		September 30, 2023	December 31, 2022
Automobiles	3	\$ 120	\$ 110
Computer hardware and software	3 - 5	8,976	8,712
Manufacturing and lab equipment	2 - 7	90,527	89,230
Office equipment and furniture	5 - 7	2,520	2,410
Leasehold and building improvements	2 - 12	31,249	30,675
Buildings	30	9,392	9,392
Land	N/A	3,399	3,399
		<u>146,183</u>	<u>143,928</u>
Accumulated depreciation		<u>(92,053)</u>	<u>(83,235)</u>
		<u>\$ 54,130</u>	<u>\$ 60,693</u>

Note 8 - 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, 2023	December 31, 2022
Patents	3 - 5	\$ 6,313	\$ 6,322
Development programs	2 - 4	7,200	7,200
Developed technology	5	2,959	2,930
		16,472	16,452
Accumulated amortization		(14,306)	(12,411)
		<u>\$ 2,166</u>	<u>\$ 4,041</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Amortization expense	\$ 633	\$ 660	\$ 1,896	\$ 2,147

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

2023	\$ 514
2024	819
2025	485
2026	348
Thereafter	—
	<u>\$ 2,166</u>

Goodwill

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

	Laser Products	Advanced Development	Totals
Balance, December 31, 2022	\$ 2,128	\$ 10,248	\$ 12,376
Currency exchange rate adjustment	(9)	—	(9)
Balance, September 30, 2023	<u>\$ 2,119</u>	<u>\$ 10,248</u>	<u>\$ 12,367</u>

Note 9 - Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of	
	September 30, 2023	December 31, 2022
Accrued payroll and benefits	\$ 9,019	\$ 8,233
Product warranty, current	3,694	2,601
Other accrued expenses	1,466	1,986
	<u>\$ 14,179</u>	<u>\$ 12,820</u>

Note 10 - 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,	
	2023	2022
Product warranty liability, beginning	\$ 5,441	\$ 5,371
Warranty charges incurred, net	(2,805)	(1,023)
Provision for warranty charges, net of adjustments	2,267	971
Product warranty liability, ending	4,903	5,319
Less: current portion of product warranty liability	(3,694)	(2,491)
Non-current portion of product warranty liability	\$ 1,209	\$ 2,828

Note 11 - 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:

	Number of Restricted Stock Awards and Units (Thousands)	Weighted-Average Grant Date Fair Value
Balance, December 31, 2022	3,115	\$ 18.76
Granted	1,581	10.28
Vested	(1,100)	19.97
Forfeited	(304)	20.12
Balance, September 30, 2023	3,292	14.16

The total fair value of RSUs and RSAs vested during the nine months ended September 30, 2023, was \$22.0 million. Awards outstanding as of September 30, 2023 include 0.9 million performance-based awards that will vest upon meeting certain performance criteria. Approximately 0.5 million total performance-based awards were granted in 2023. These awards vest based on a market metric called Total Shareholder Return ("TSR") for the performance period of three years relative to the TSR of companies in the Russell 2000 Index and had a weighted average grant date fair value of \$14.21 per share using a Monte Carlo simulation pricing model.

Stock Options

The following table summarizes our stock option activity during the nine months ended September 30, 2023:

	Number of Options (Thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Outstanding, December 31, 2022	1,827	\$1.29	3.4	\$16,156
Options exercised	(278)	1.39		
Outstanding, September 30, 2023	1,549	1.28	2.6	14,128
Options exercisable at September 30, 2023	1,549	1.28	2.6	14,128
Options vested as of September 30, 2023, and expected to vest after September 30, 2023	1,549	1.28	2.6	14,128

Total intrinsic value of options exercised for the nine months ended September 30, 2023 and 2022, was \$2.5 million and \$7.5 million, respectively. We received proceeds of \$0.4 million and \$1.1 million from the exercise of options for the nine months ended September 30, 2023 and 2022, respectively.

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,	
	2023	2022	2023	2022
Cost of revenues	\$ 508	\$ 712	\$ 1,871	\$ 2,105
Research and development	2,613	3,169	7,537	9,408
Sales, general and administrative	3,506	3,614	10,237	9,215
	<u>\$ 6,627</u>	<u>\$ 7,495</u>	<u>\$ 19,645</u>	<u>\$ 20,728</u>

Unrecognized Compensation Costs

As of September 30, 2023, total unrecognized stock-based compensation was \$36.7 million, which will be recognized over an average expected recognition period of 2.0 years.

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. Loss in this matter is not probable or reasonably estimable and, as such, no loss contingency has been recorded.

From time to time, we may be subject to various other legal proceedings and claims in the ordinary course of business. As of September 30, 2023, we believe these matters will not have a material adverse effect on our consolidated financial statements.

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 0.2 to 11.7 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 0.1 to 4.6 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, 2023, and the weighted-average discount rate was 3.7%.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Lease expense:				
Operating lease expense	\$ 948	\$ 911	\$ 2,763	\$ 2,907
Short-term lease expense	142	185	348	437
Variable and other lease expense	271	224	744	659
	<u>\$ 1,361</u>	<u>\$ 1,320</u>	<u>\$ 3,855</u>	<u>\$ 4,003</u>

Future minimum payments under our non-cancelable lease obligations were as follows as of September 30, 2023 (in thousands):

2023	\$ 922
2024	3,471
2025	2,217
2026	1,714
2027	1,672
Thereafter	6,809
Total minimum lease payments	<u>16,805</u>
Less: interest	<u>(2,305)</u>
Present value of net minimum lease payments	14,500
Less: current portion of lease liabilities	<u>(3,049)</u>
Total long-term lease liabilities	<u>\$ 11,451</u>

Note 14 - 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 (dollars in thousands):

	Three Months Ended September 30, 2023			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	\$ 38,103	\$ 12,531	\$ —	\$ 50,634
Gross profit	\$ 9,596	\$ 850	\$ (508)	\$ 9,938
Gross margin	25.2 %	6.8 %	NM*	19.6 %

	Nine Months Ended September 30, 2023			
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	\$ 118,802	\$ 39,227	\$ —	\$ 158,029
Gross profit	\$ 35,860	\$ 2,320	\$ (1,871)	\$ 36,309
Gross margin	30.2 %	5.9 %	NM*	23.0 %

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 %

*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, 2022.

Note 15 - 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,	
	2023	2022	2023	2022
Restricted stock units and awards	918	701	942	1,046
Common stock options	1,413	1,676	1,485	2,052
	<u>2,331</u>	<u>2,377</u>	<u>2,427</u>	<u>3,098</u>

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; our expectations regarding manufacturing; 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, fiber amplifiers, and other directed energy laser 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 \$158.0 million in the nine months ended September 30, 2023 compared to \$185.4 million in the same period of 2022 due primarily to decreased sales in the Laser Products segment, particularly in China. We generated a net loss of \$28.4 million for the nine months ended September 30, 2023 compared to a net loss of \$31.9 million for the same period of 2022.

Factors Affecting Our Performance

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 product and 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 performance of our products provide a significant benefit to our customers. 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. We have invested heavily in U.S.-based manufacturing capabilities in the last several years. 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, execution on projects during the period, and estimated costs to project completion. 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, the timing of capital expenditures by our customers, holidays, 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,	
	2023	2022	2023	2022
Revenue:				
Products	75.3 %	79.9 %	75.2 %	79.4 %
Development	24.7	20.1	24.8	20.6
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Products	57.3	58.8	53.7	56.5
Development	23.1	18.7	23.3	19.2
Total cost of revenue	80.4	77.5	77.0	75.7
Gross profit	19.6	22.5	23.0	24.3
Operating expenses:				
Research and development	21.2	21.2	21.5	21.7
Sales, general, and administrative	23.2	22.9	21.9	19.7
Total operating expenses	44.4	44.1	43.5	41.4
Loss from operations	(24.7)	(21.6)	(20.5)	(17.1)
Other income:				
Interest income, net	0.6	0.3	0.6	0.1
Other income (expense), net	1.1	(0.1)	1.3	(0.1)
Loss before income taxes	(23.1)	(21.4)	(18.6)	(17.1)
Income tax expense (benefit)	0.4	0.2	(0.6)	0.2
Net loss	(23.5)%	(21.6)%	(18.0)%	(17.3)%

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	
	2023	% of Revenue	2022	% of Revenue	\$	%
Industrial	\$ 19,607	38.7 %	\$ 22,217	37.0 %	\$ (2,610)	(11.7)%
Microfabrication	12,000	23.7	17,682	29.4	(5,682)	(32.1)
Aerospace and Defense	19,027	37.6	20,194	33.6	(1,167)	(5.8)
	\$ 50,634	100.0 %	\$ 60,093	100.0 %	\$ (9,459)	(15.7)%
	Nine Months Ended September 30,				Change	
	2023	% of Revenue	2022	% of Revenue	Amount	%
Industrial	\$ 56,078	35.5 %	\$ 68,112	36.7 %	\$ (12,034)	(17.7)%
Microfabrication	37,285	23.6	51,416	27.7	(14,131)	(27.5)
Aerospace and Defense	64,666	40.9	65,851	35.6	(1,185)	(1.8)
	\$ 158,029	100.0 %	\$ 185,379	100.0 %	\$ (27,350)	(14.8)%

The decreases in revenue from the Industrial and Microfabrication markets for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were driven by decreases in unit sales due to lower global market demand, and lower average selling prices in China. The decreases in revenue from the Aerospace and Defense market for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were the result of decreases in product unit sales, offset partially by new development contracts.

Revenues by Segment

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

	Three Months Ended September 30,				Change	
	2023	% of Revenue	2022	% of Revenue	\$	%
Laser Products	\$ 38,103	75.3 %	\$ 48,042	79.9 %	\$ (9,939)	(20.7)%
Advanced Development	12,531	24.7	12,051	20.1	480	4.0
	<u>\$ 50,634</u>	<u>100.0 %</u>	<u>\$ 60,093</u>	<u>100.0 %</u>	<u>\$ (9,459)</u>	<u>(15.7)%</u>

	Nine Months Ended September 30,				Change	
	2023	% of Revenue	2022	% of Revenue	Amount	%
Laser Products	\$ 118,802	75.2 %	\$ 147,283	79.4 %	\$ (28,481)	(19.3)%
Advanced Development	39,227	24.8	38,096	20.6	1,131	3.0
	<u>\$ 158,029</u>	<u>100.0 %</u>	<u>\$ 185,379</u>	<u>100.0 %</u>	<u>\$ (27,350)</u>	<u>(14.8)%</u>

The decreases in Laser Products revenue for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were primarily the result of decreased revenue from the Industrial, Microfabrication and Aerospace and Defense markets as discussed above.

The increases in Advanced Development revenue for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were driven by new 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	
	2023	% of Revenue	2022	% of Revenue	\$	%
North America	\$ 31,330	61.9 %	\$ 32,793	54.6 %	\$ (1,463)	(4.5)%
China	2,624	5.2	5,230	8.7	(2,606)	(49.8)
Rest of World	16,680	32.9	22,070	36.7	(5,390)	(24.4)
	<u>\$ 50,634</u>	<u>100.0 %</u>	<u>\$ 60,093</u>	<u>100.0 %</u>	<u>\$ (9,459)</u>	<u>(15.7)%</u>

	Nine Months Ended September 30,				Change	
	2023	% of Revenue	2022	% of Revenue	Amount	%
North America	\$ 94,750	60.0 %	\$ 103,619	55.9 %	\$ (8,869)	(8.6)%
China	9,134	5.8	17,041	9.2	(7,907)	(46.4)
Rest of World	54,145	34.2	64,719	34.9	(10,574)	(16.3)
	<u>\$ 158,029</u>	<u>100.0 %</u>	<u>\$ 185,379</u>	<u>100.0 %</u>	<u>\$ (27,350)</u>	<u>(14.8)%</u>

Geographic revenue information is based on the location to which we ship our products. The decreases in North America revenue for the three and nine months ended September 30, 2023 compared to the same periods in 2022, were driven by decreased revenue from the Industrial, Microfabrication, and Aerospace and Defense markets as previously discussed. The decreases in China revenue for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were the result of decreased revenue from the Industrial and Microfabrication markets due to a decline in market conditions and our decision to exit the fiber laser cutting market in China during the fourth quarter of 2022. The decreases in Rest of World revenue for the three and nine months

ended September 30, 2023, compared to the same periods in 2022, were the result of decreased revenue from the Microfabrication and Industrial markets due primarily to lower demand.

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, 2023				
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	\$ 9,596	\$ 850	\$ (508)	\$ 9,938
Gross margin	25.2 %	6.8 %	NM*	19.6 %
Nine Months Ended September 30, 2023				
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	\$ 35,860	\$ 2,320	\$ (1,871)	\$ 36,309
Gross margin	30.2 %	5.9 %	NM*	23.0 %
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 %

*NM = not meaningful

The decrease in Laser Products gross margin for the three months ended September 30, 2023, compared to the same period of 2022, was driven by decreased factory utilization due to a decrease in production demand, an increase in production variances, and changes in sales mix, partially offset by decreased manufacturing spend. The decrease in Laser Products gross margin for the nine months ended September 30, 2023, compared to same period of 2022, was not significant.

The changes in Advanced Development gross margin for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were primarily due to changes in the mix of research and development contracts. Most of our Advanced Development revenue consists of cost plus fixed fee contracts, and the fee earned on costs incurred vary by contract.

Operating Expenses

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

Research and Development

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Research and development	\$ 10,744	\$ 12,716	\$ (1,972)	(15.5)%

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Research and development	\$ 34,049	\$ 40,215	\$ (6,166)	(15.3)%

The decreases in research and development expense for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were driven by decreases in employee headcount and project-related expenses, and decreases in stock-based compensation of \$0.6 million and \$1.9 million, respectively.

Sales, General and Administrative

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Sales, general, and administrative	\$ 11,725	\$ 13,741	\$ (2,016)	(14.7)%

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Sales, general, and administrative	\$ 34,684	\$ 36,430	\$ (1,746)	(4.8)%

The decreases in sales, general and administrative expense for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were primarily due to decreases in employee compensation, including incentive compensation, and an increase in administrative costs allocated to development projects, partially offset by an increase in stock-based compensation of \$1.0 million for the nine months ended September 30, 2023. In addition, the three months ended September 30, 2023 includes an increase in professional fees and outside services, while the nine months ended September 30, 2023 includes a decrease in professional fees and outside services.

Interest Income, net

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Interest income, net	\$ 303	\$ 167	\$ 136	81.4%

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Interest income, net	\$ 990	\$ 238	\$ 752	316.0 %

The increases in interest income, net, for the three and nine months ended September 30, 2023, compared to the same periods in 2022, were driven by increases in interest rates and increased investment in marketable securities.

Other Income (Expense), net

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Other income (expense), net	\$ 536	\$ (31)	\$ 567	NM*

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Other income (expense), net	\$ 1,997	\$ (108)	\$ 2,105	NM*

*NM = not meaningful

Changes in other income (expense), net, are primarily attributable to realized gains on the sale of marketable securities and changes in net realized and unrealized foreign exchange transactions resulting from currency rate fluctuations.

Income Tax Expense (Benefit)

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Income tax expense (benefit)	\$ 187	\$ 110	\$ 77	70.0 %

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Income tax expense (benefit)	\$ (1,005)	\$ 443	\$ (1,448)	(326.9)%

We record income tax expense (benefit) 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 (benefit) 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, 2023.

The increase in income tax expense for the three months ended September 30, 2023, compared to the same period of 2022 was driven by higher profitability in foreign jurisdictions, while the decrease in income tax expense for the nine months ended September 30, 2023, compared to the same period in 2022, was driven by a discrete tax benefit related to expiring statutes of limitations of unrecognized tax positions recorded in the second quarter of 2023.

Liquidity and Capital Resources

We had cash and cash equivalents of \$52.1 million and \$57.8 million as of September 30, 2023 and December 31, 2022, respectively. In addition, we had marketable securities of \$59.5 million and \$50.4 million at September 30, 2023 and December 31, 2022, respectively. Our total balance of cash, cash equivalents, restricted cash and marketable securities increased by \$3.4 million from December 31, 2022 to September 30, 2023.

For the nine months ended September 30, 2023, our principal uses of liquidity were to fund our working capital needs. The primary source of cash was collections from customers. 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,	
	2023	2022
Net cash provided by (used in) operating activities	\$ 9,687	\$ (14,552)
Net cash used in investing activities	(13,163)	(67,465)
Net cash used in financing activities	(2,062)	(1,620)
Effect of exchange rate changes on cash	(198)	(712)
Net decrease in cash, cash equivalents and restricted cash	\$ (5,736)	\$ (84,349)

Net Cash Provided by (used in) Operating Activities

During the nine months ended September 30, 2023, net cash provided by operating activities was \$9.7 million, which was the result of a \$28.4 million net loss, offset by increases in working capital of \$5.0 million and non-cash expenses totaling \$33.1 million related primarily to depreciation, amortization, and stock-based compensation. Changes in working capital were driven by a \$5.5 million decrease in inventory, and \$2.4 decrease in accounts receivable, net, for the nine months ended September 30, 2023, compared to an \$8.8 million increase inventory and a \$3.4 million increase in accounts receivable, net, over the comparable period of 2022.

Net Cash Used in Investing Activities

During the nine months ended September 30, 2023, net cash used in investing activities was \$13.2 million, which was driven by the net purchase of marketable securities of \$8.8 million and capital expenditures of \$4.4 million.

Net Cash Used in Financing Activities

During the nine months ended September 30, 2023, net cash used in financing activities was \$2.1 million, which consisted of taxes paid on the net settlement of stock awards of \$3.7 million, partially offset by proceeds from stock option exercises and employee stock plan purchases of \$1.6 million.

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, 2023 and we were in compliance with all covenants.

Contractual Obligations

There have been no material changes to our contractual obligations as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Inflation

While we do not believe that inflation had a material effect on our business, financial condition or results of operations during the nine months ended September 30, 2023, we experienced increases in wages and other compensation costs, materials, and shipping costs in 2022 and the nine months ended September 30, 2023. 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, 2022. Our exposure to market risk has not changed materially since December 31, 2022.

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

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2023 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.

PART II—OTHER INFORMATION

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, 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, 2022.

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During the three months ended September 30, 2023, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Regulation S-K Item 408.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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

* 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 3, 2023

Date

By: /s/ SCOTT KEENEY

Scott Keeney

President and Chief Executive Officer
(Principal Executive Officer)

November 3, 2023

Date

By: /s/ JOSEPH CORSO

Joseph Corso

Chief Financial Officer
(Principal Financial Officer)

November 3, 2023

Date

By: /s/ JAMES NIAS

James Nias

Chief Accounting Officer
(Principal Accounting Officer)

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 3, 2023

/s/ SCOTT KEENEY

Scott Keeney

President, Chief Executive Officer and Chairman (Principal Executive 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 September 30, 2023, 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 3, 2023

/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.

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 3, 2023

/s/ JOSEPH CORSO

Joseph Corso

Chief Financial Officer (Principal Financial Officer)