

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, 2021

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 November 2, 2021, the Registrant had 43,920,633 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED INTERIM FINANCIAL STATEMENTS

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

	As of	
	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 165,584	\$ 102,282
Accounts receivable, net of allowances of \$299 and \$367	36,490	31,820
Inventory	70,683	54,706
Prepaid expenses and other current assets	17,267	11,767
Total current assets	290,024	200,575
Restricted cash	250	291
Lease right-of-use assets	17,187	12,302
Property, plant and equipment, net	52,303	44,480
Intangible assets, net	5,580	8,345
Goodwill	12,437	12,484
Other assets, net	4,190	5,167
Total assets	\$ 381,971	\$ 283,644
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 31,868	\$ 21,057
Accrued liabilities	15,742	15,321
Deferred revenues	1,607	2,528
Current portion of lease liabilities	2,858	2,273
Current portion of long-term debt	—	184
Total current liabilities	52,075	41,363
Non-current income taxes payable	6,988	7,556
Long-term lease liabilities	14,921	10,375
Long-term debt	—	215
Other long-term liabilities	3,989	4,221
Total liabilities	77,973	63,730
Stockholders' equity:		
Common stock - \$0.0001 par value; 190,000 shares authorized, 43,876 and 39,793 shares issued and outstanding at September 30, 2021, and December 31, 2020, respectively.	15	15
Additional paid-in capital	464,090	358,544
Accumulated other comprehensive loss	(802)	(259)
Accumulated deficit	(159,305)	(138,386)
Total stockholders' equity	303,998	219,914
Total liabilities and stockholders' equity	\$ 381,971	\$ 283,644

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,	
	2021	2020	2021	2020
Revenue:				
Products	\$ 54,393	\$ 51,117	\$ 155,289	\$ 133,151
Development	17,842	10,615	47,404	23,934
Total revenue	72,235	61,732	202,693	157,085
Cost of revenue:				
Products	34,193	34,645	98,828	95,142
Development	16,647	9,927	44,500	22,226
Total cost of revenue	50,840	44,572	143,328	117,368
Gross profit	21,395	17,160	59,365	39,717
Operating expenses:				
Research and development	14,838	11,126	40,830	29,136
Sales, general, and administrative	13,316	10,010	40,087	27,343
Total operating expenses	28,154	21,136	80,917	56,479
Loss from operations	(6,759)	(3,976)	(21,552)	(16,762)
Other income (expense):				
Interest income (expense), net	(20)	(96)	(126)	122
Other income, net	102	477	246	63
Loss before income taxes	(6,677)	(3,595)	(21,432)	(16,577)
Income tax expense (benefit)	203	(1,485)	(513)	(162)
Net loss	<u>\$ (6,880)</u>	<u>\$ (2,110)</u>	<u>\$ (20,919)</u>	<u>\$ (16,415)</u>
Net loss per share, basic and diluted	<u>\$ (0.16)</u>	<u>\$ (0.05)</u>	<u>\$ (0.50)</u>	<u>\$ (0.43)</u>
Shares used in per share calculations, basic and diluted	<u>42,884</u>	<u>38,558</u>	<u>41,759</u>	<u>38,195</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,	
	2021	2020	2021	2020
Net loss	\$ (6,880)	\$ (2,110)	\$ (20,919)	\$ (16,415)
Other comprehensive loss:				
Foreign currency translation adjustments, net of tax	(378)	1,091	(543)	928
Comprehensive loss	<u>\$ (7,258)</u>	<u>\$ (1,019)</u>	<u>\$ (21,462)</u>	<u>\$ (15,487)</u>

See accompanying notes to consolidated financial statements.

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	<u>43,876</u>	<u>\$ 15</u>	<u>\$ 464,090</u>	<u>\$ (802)</u>	<u>\$ (159,305)</u>	<u>\$ 303,998</u>

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	<u>43,876</u>	<u>\$ 15</u>	<u>\$ 464,090</u>	<u>\$ (802)</u>	<u>\$ (159,305)</u>	<u>\$ 303,998</u>

Three Months Ended September 30, 2020						
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, June 30, 2020	38,850	\$ 15	\$ 345,917	\$ (2,848)	\$ (131,759)	\$ 211,325
Net loss	—	—	—	—	(2,110)	(2,110)
Issuance of common stock pursuant to exercise of stock options	115	—	260	—	—	260
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	370	—	(1,157)	—	—	(1,157)
Stock-based compensation	—	—	6,683	—	—	6,683
Cumulative translation adjustment, net of tax	—	—	—	1,091	—	1,091
Balance, September 30, 2020	<u>39,335</u>	<u>\$ 15</u>	<u>\$ 351,703</u>	<u>\$ (1,757)</u>	<u>\$ (133,869)</u>	<u>\$ 216,092</u>

Nine Months Ended September 30, 2020						
	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2019	38,084	\$ 15	\$ 336,732	\$ (2,685)	\$ (117,454)	\$ 216,608
Net loss	—	—	—	—	(16,415)	(16,415)
Issuance of common stock pursuant to exercise of stock options	633	—	1,117	—	—	1,117
Issuance of common stock pursuant to vesting of restricted stock awards and units, net of stock withheld for tax	579	—	(3,314)	—	—	(3,314)
Issuance of common stock under the Employee Stock Purchase Plan	39	—	685	—	—	685
Stock-based compensation	—	—	16,483	—	—	16,483
Cumulative translation adjustment, net of tax	—	—	—	928	—	928
Balance, September 30, 2020	<u>39,335</u>	<u>\$ 15</u>	<u>\$ 351,703</u>	<u>\$ (1,757)</u>	<u>\$ (133,869)</u>	<u>\$ 216,092</u>

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (20,919)	\$ (16,415)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	6,670	5,614
Amortization	4,641	4,319
Reduction in carrying amount of right-of-use assets	2,435	2,162
Provision for (recoveries of) losses on accounts receivable	(70)	84
Stock-based compensation	29,732	16,483
Deferred income taxes	(11)	—
Loss on disposal of assets	3	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,580)	4,094
Inventory	(16,169)	(6,411)
Prepaid expenses and other current assets	(5,542)	(4,753)
Other assets	(437)	(2,418)
Accounts payable	9,699	10,565
Accrued and other long-term liabilities	907	1,494
Deferred revenues	(925)	1,405
Lease liabilities	(2,156)	(2,120)
Non-current income taxes payable	(591)	591
Net cash provided by operating activities	2,687	14,694
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(291)	(168)
Purchases of property, plant and equipment	(13,636)	(19,395)
Capitalization of patents	(303)	(717)
Net cash used in investing activities	(14,230)	(20,280)
Cash flows from financing activities:		
Proceeds from public offerings, net of offering costs	82,354	—
Proceeds from term loan	—	15,000
Principal payments on debt and financing leases	(428)	(15,126)
Payment of contingent consideration related to acquisition	(326)	—
Proceeds from employee stock plan purchases	750	685
Proceeds from stock option exercises	975	1,117
Tax payments related to stock award issuances	(8,265)	(3,314)
Net cash provided by (used in) financing activities	75,060	(1,638)
Effect of exchange rate changes on cash	(256)	373
Net increase (decrease) in cash, cash equivalents, and restricted cash	63,261	(6,851)
Cash, cash equivalents, and restricted cash, beginning of period	102,573	117,294
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 165,834</u>	<u>\$ 110,443</u>
Supplemental disclosures:		
Cash paid (received) for interest, net	\$ 116	\$ (312)
Cash paid for income taxes	434	1,015
Right-of-use assets obtained in exchange for lease liabilities	7,348	13,470
Accrued purchases of property, equipment and patents	2,287	1,294

See accompanying notes to consolidated financial statements.

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

Note 1 - Basis of Presentation and New Accounting Pronouncements

Basis of Presentation

The accompanying 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 2020 Annual Report on Form 10-K.

Critical Accounting Policies

Our critical accounting policies have not materially changed during the nine months ended September 30, 2021 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

New Accounting Pronouncements

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

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in June 2016. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For assets measured at amortized cost, the new standard requires that the income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 was amended in November 2018, April 2019 and March 2020. We adopted ASU 2016-13, as amended, on January 1, 2021 on a prospective basis. The adoption did not have a material impact on our financial position, results of operations or cash flows.

ASU 2019-12

The FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, in December 2019. ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. We adopted ASU 2019-12 on January 1, 2021 on a prospective basis. The adoption did not have a material impact on our financial position, results of operations or cash flows.

Note 2 - Acquisitions

nLIGHT Europe Srl (formerly known as OPI Photonics Srl)

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 approximately \$1.6 million, of which \$0.2 million was paid at closing with the remaining \$1.4 million to be paid over the next 24 months. The acquisition price was allocated to the tangible and identified intangible assets acquired and liabilities assumed as of the closing date of the acquisition based upon their respective fair values, and the excess of purchase price over the fair value amounts representing goodwill. The fair values assigned to assets acquired and liabilities assumed were based on management's best estimates and assumptions as of the reporting date and are considered preliminary. Changes to amounts recorded as assets or liabilities may result in corresponding adjustments to goodwill. Pro forma financial information has not been provided for the purchase as it was not material to our overall financial position.

During the nine months ended September 30, 2021, accrued acquisition consideration of \$0.6 million, including contingent consideration of \$0.3 million, was paid to the sellers of OPI.

Note 3 - Revenue

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

Sales by End Market

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Industrial	\$ 26,737	\$ 21,880	\$ 73,044	\$ 60,500
Microfabrication	17,695	14,052	53,184	38,771
Aerospace and Defense	27,803	25,800	76,465	57,814
	<u>\$ 72,235</u>	<u>\$ 61,732</u>	<u>\$ 202,693</u>	<u>\$ 157,085</u>

Sales by Geography

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
North America	\$ 37,430	\$ 31,384	\$ 101,659	\$ 72,924
China	13,709	19,186	48,045	52,723
Rest of World	21,096	11,162	52,989	31,438
	<u>\$ 72,235</u>	<u>\$ 61,732</u>	<u>\$ 202,693</u>	<u>\$ 157,085</u>

Sales by Timing of Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Point in time	\$ 53,070	\$ 51,101	\$ 150,187	\$ 133,304
Over time	19,165	10,631	52,506	23,781
	<u>\$ 72,235</u>	<u>\$ 61,732</u>	<u>\$ 202,693</u>	<u>\$ 157,085</u>

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

	Balance Sheet Classification	As of	
		September 30, 2021	December 31, 2020
Contract assets	Prepaid expenses and other current assets	\$ 11,771	\$ 5,680
Contract liabilities	Deferred revenues and other long-term liabilities	2,420	2,985

During the three and nine months ended September 30, 2021, we recognized revenue of \$0.3 million and \$2.1 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,	
	2021	2020	2021	2020
U.S. Government	23%	16%	21%	13%
Quick Laser Technology Co., Ltd.	(1)	13%	(1)	13%
Raytheon Technologies	(1)	12%	(1)	13%

⁽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, 2021 and December 31, 2020, two customers accounted for approximately 33% and 43%, respectively, of net accounts receivable. No other customers accounted for 10% or more of net accounts receivable at either date.

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.

We do not have any other significant financial assets or liabilities that are measured at fair value.

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. Our fair value hierarchy for our financial instruments consists of cash equivalents as follows (in thousands):

	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Money market securities	\$ 136,894	\$ —	\$ —	\$ 136,894
Commercial paper	3,885	—	—	3,885
Total	\$ 140,779	\$ —	\$ —	\$ 140,779

December 31, 2020				
	Level 1	Level 2	Level 3	Total
Money market securities	\$ 74,084	\$ —	\$ —	\$ 74,084
Commercial paper	1,584	—	—	1,584
Total	\$ 75,668	\$ —	\$ —	\$ 75,668

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, 2021	December 31, 2020
Raw materials	\$ 29,725	\$ 21,410
Work in process and semi-finished goods	24,085	21,320
Finished goods	16,873	11,976
	<u>\$ 70,683</u>	<u>\$ 54,706</u>

Note 7 - Property, Plant and Equipment

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

	Useful life (years)	As of	
		September 30, 2021	December 31, 2020
Automobile	3	\$ 113	\$ 34
Computer hardware and software	3 - 5	6,046	4,840
Manufacturing and lab equipment	2 - 7	76,652	69,849
Office equipment and furniture	5 - 7	2,168	1,605
Leasehold and building improvements	2 - 12	26,956	21,934
Buildings	30	9,392	9,081
Land	N/A	3,399	3,399
		<u>124,726</u>	<u>110,742</u>
Accumulated depreciation		<u>(72,423)</u>	<u>(66,262)</u>
		<u>\$ 52,303</u>	<u>\$ 44,480</u>

Note 8 - Intangible Assets and Goodwill

Intangibles

The details of amortizing intangible assets are as follows (in thousands):

	Estimated useful life (in years)	As of	
		September 30, 2021	December 31, 2020
Patents	3 - 5	\$ 5,965	\$ 6,199
Development programs	2 - 4	7,200	7,200
Developed technology	5	1,125	1,226
		14,290	14,625
Accumulated amortization		(8,710)	(6,280)
		<u>\$ 5,580</u>	<u>\$ 8,345</u>

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

Remainder of 2021	\$ 868
2022	2,431
2023	1,749
2024	396
2025	136
	<u>\$ 5,580</u>

Goodwill

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

	Laser Products	Advanced Development	Totals
Balance, December 31, 2020	\$ 2,236	\$ 10,248	\$ 12,484
Currency exchange rate adjustment	(47)	—	(47)
Balance, September 30, 2021	<u>\$ 2,189</u>	<u>\$ 10,248</u>	<u>\$ 12,437</u>

Note 9 - Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of	
	September 30, 2021	December 31, 2020
Accrued payroll and benefits	\$ 11,568	\$ 10,770
Product warranty, current	2,251	2,122
Other accrued expenses	1,923	2,429
	<u>\$ 15,742</u>	<u>\$ 15,321</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 on our Consolidated Balance Sheets.

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

	Nine Months Ended September 30,	
	2021	2020
Product warranty liability, beginning	\$ 4,711	\$ 2,984
Warranty charges incurred, net	(1,699)	(2,259)
Provision for warranty charges, net of adjustments	2,431	3,425
Acquired warranty	—	100
Product warranty liability, ending	5,443	4,250
Less: current portion of product warranty liability	(2,251)	(1,982)
Non-current portion of product warranty liability	\$ 3,192	\$ 2,268

Note 11 - Line of Credit Facility

We have a \$40.0 million revolving line of credit (LOC) with Pacific Western Bank dated September 24, 2018, which is secured by our assets.

On September 24, 2021, we amended the LOC to extend the maturity date to September 24, 2024, remove LIBOR references and update the financial covenants.

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, 2021 and we were in compliance with all covenants.

Note 12 - Commitments and Contingencies

Leases

See Note 13.

Legal Matters

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. As of September 30, 2021, and as of the filing of this Quarterly Report on Form 10-Q, we were not involved in any material legal proceedings.

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 13.7 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 0.8 to 4.7 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 9 years at September 30, 2021, 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,	
	2021	2020	2021	2020
Lease expense:				
Operating lease expense	\$ 968	\$ 758	\$ 2,933	\$ 2,178
Short-term lease expense	172	35	456	153
Variable and other lease expense	192	128	549	381
	<u>\$ 1,332</u>	<u>\$ 921</u>	<u>\$ 3,938</u>	<u>\$ 2,712</u>

Future minimum payments under our non-cancelable lease obligations were as follows as of September 30, 2021 (in thousands):

Remainder of 2021	\$ 914
2022	3,333
2023	2,508
2024	2,361
2025	1,913
Thereafter	10,041
Total minimum lease payments	<u>21,070</u>
Less: interest	<u>(3,291)</u>
Present value of net minimum lease payments	<u>17,779</u>
Less: current portion of lease liabilities	<u>(2,858)</u>
Total long-term lease liabilities	<u>\$ 14,921</u>

Note 14 - Stockholders' Equity and Stock-Based Compensation

Public Offering

In March 2021, we closed a follow-on public offering in which we issued and sold approximately 2.5 million shares of common stock (including approximately 0.3 million shares sold pursuant to the full exercise of the underwriters option to purchase additional shares) at an offering price of \$34.00 per share, resulting in aggregate net proceeds to us of approximately \$82.4 million after deducting underwriting discounts, commissions and offering costs.

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, 2020	653	\$ 21.30
Awards granted	358	33.12
Awards vested	(258)	25.08
RSAs at September 30, 2021	<u>753</u>	<u>\$ 25.63</u>
	Number of Restricted Stock Units	Weighted- Average Grant Date Fair Value
RSUs at December 31, 2020	2,800	\$ 20.54
Awards granted	1,143	33.39
Awards vested	(707)	24.74
Awards forfeited	(94)	33.94
RSUs at September 30, 2021	<u>3,142</u>	<u>\$ 23.86</u>

The total fair value of RSAs and RSUs vested during the nine months ended September 30, 2021 was \$6.5 million and \$17.5 million, respectively. Awards outstanding as of September 30, 2021 include 0.8 million 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, 2021 (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, 2020	3,358	\$1.53	5.3	\$104,510
Options exercised	(746)	\$1.31		
Options canceled	(3)	\$3.74		
Outstanding, September 30, 2021	<u>2,609</u>	<u>\$1.59</u>	<u>4.6</u>	<u>\$69,408</u>
Options exercisable at September 30, 2021	<u>2,319</u>	<u>\$1.26</u>	<u>4.5</u>	<u>\$62,450</u>
Options vested as of September 30, 2021 and expected to vest after September 30, 2021	<u>2,609</u>	<u>\$1.59</u>	<u>4.6</u>	<u>\$69,408</u>

Total intrinsic value of options exercised for the nine months ended September 30, 2021 and 2020 was \$23.3 million and \$11.2 million, respectively. We received proceeds of \$1.0 million and \$1.1 million from the exercise of options for each of the nine months ended September 30, 2021 and 2020, respectively.

Employee Stock Purchase Plan

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

	Nine Months Ended September 30, 2021
Shares issued	33
Weighted-average per share purchase price	\$ 22.41
Weighted-average per share discount from the fair value of our common stock on date of issuance	\$ 3.95

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,	
	2021	2020	2021	2020
Cost of revenues	\$ 740	\$ 505	\$ 1,780	\$ 1,189
Research and development	3,782	2,545	10,408	6,602
Sales, general and administrative	5,550	3,633	17,544	8,692
	<u>\$ 10,072</u>	<u>\$ 6,683</u>	<u>\$ 29,732</u>	<u>\$ 16,483</u>

Unrecognized Compensation Costs

As of September 30, 2021, total unrecognized stock-based compensation was \$79.2 million, which will be recognized over an average expected recognition period of 2.8 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. As of September 30, 2021, 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, 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 %

Three Months Ended September 30, 2020				
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	\$ 51,117	\$ 10,615	\$ —	\$ 61,732
Gross profit	\$ 16,977	\$ 688	\$ (505)	\$ 17,160
Gross margin	33.2 %	6.5 %	NM	27.8 %

Nine Months Ended September 30, 2020				
	Laser Products	Advanced Development	Corporate and Other	Totals
Revenue	\$ 133,151	\$ 23,934	\$ —	\$ 157,085
Gross profit	\$ 39,198	\$ 1,708	\$ (1,189)	\$ 39,717
Gross margin	29.4 %	7.1 %	NM	25.3 %

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, 2020.

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 period 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,	
	2021	2020	2021	2020
Restricted stock units and awards	2,195	3,498	2,547	2,129
Employee stock purchase plan	—	39	—	—
Common stock options	2,544	3,593	2,717	3,593
	<u>4,739</u>	<u>7,130</u>	<u>5,264</u>	<u>5,722</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 ability to develop innovative products; the implementation of our business model and strategic plans, including estimates regarding expenses and capital requirements; the impact of inflation; our future financial performance; our utilization of vertical integration; our ability to adequately protect our intellectual property rights; 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 and those risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2020 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 increased to \$202.7 million in the nine months ended September 30, 2021 compared to \$157.1 million in the same period of 2020 as a result of higher revenue across all end markets. We generated a net loss of \$20.9 million for the nine months ended September 30, 2021 compared to a net loss of \$16.4 million for the same period of 2020.

Factors Affecting Our Performance

For factors affecting our performance, reference is made to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in Part II of our Annual Report on Form 10-K for the year ended December 31, 2020. There have been no material changes to the factors affecting our performance since December 31, 2020.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Products	75.3 %	82.8 %	76.6 %	84.8 %
Development	24.7	17.2	23.4	15.2
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Products	47.3	56.1	48.8	60.6
Development	23.1	16.2	21.9	14.1
Total cost of revenue	70.4	72.2	70.7	74.7
Gross profit	29.6	27.8	29.3	25.3
Operating expenses:				
Research and development	20.5	18.0	20.1	18.6
Sales, general, and administrative	18.4	16.2	19.8	17.4
Total operating expenses	38.9	34.2	39.9	36.0
Loss from operations	(9.3)	(6.4)	(10.6)	(10.7)
Other income (expense):				
Interest income (expense), net	—	(0.2)	(0.1)	0.1
Other income, net	0.1	0.8	0.1	—
Loss before income taxes	(9.2)	(5.8)	(10.6)	(10.6)
Income tax expense (benefit)	0.3	(2.4)	(0.3)	(0.2)
Net loss	(9.5)%	(3.4)%	(10.3)%	(10.4)%

Revenues by Segment

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

	Three Months Ended September 30,				Change	
	2021	% of Revenue	2020	% of Revenue	\$	%
Laser Products	\$ 54,393	75.3 %	\$ 51,117	82.8 %	\$ 3,276	6.4 %
Advanced Development	17,842	24.7	10,615	17.2	7,227	68.1
	<u>\$ 72,235</u>	<u>100.0 %</u>	<u>\$ 61,732</u>	<u>100.0 %</u>	<u>\$ 10,503</u>	<u>17.0 %</u>

	Nine Months Ended September 30,				Change	
	2021	% of Revenue	2020	% of Revenue	\$	%
Laser Products	\$155,289	76.6 %	\$ 133,151	84.8 %	\$ 22,138	16.6 %
Advanced Development	47,404	23.4	23,934	15.2	23,470	98.1
	<u>\$202,693</u>	<u>100.0 %</u>	<u>\$ 157,085</u>	<u>100.0 %</u>	<u>\$ 45,608</u>	<u>29.0 %</u>

The increases in Laser Products revenue for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were driven by increased sales to the Industrial and Microfabrication markets as discussed below, offset partially by a decrease in product sales to the Aerospace and Defense market. The increases in Advanced Development revenue were primarily due to increased activity on existing research and development contracts.

Revenues by End Market

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

	Three Months Ended September 30,				Change	
	2021	% of Revenue	2020	% of Revenue	\$	%
Industrial	\$ 26,737	37.0 %	\$ 21,880	35.4 %	\$ 4,857	22.2 %
Microfabrication	17,695	24.5	14,052	22.8	3,643	25.9
Aerospace and Defense	27,803	38.5	25,800	41.8	2,003	7.8
	<u>\$ 72,235</u>	<u>100.0 %</u>	<u>\$ 61,732</u>	<u>100.0 %</u>	<u>\$ 10,503</u>	<u>17.0 %</u>

	Nine Months Ended September 30,				Change	
	2021	% of Revenue	2020	% of Revenue	\$	%
Industrial	\$ 73,044	36.0 %	\$ 60,500	38.5 %	\$ 12,544	20.7 %
Microfabrication	53,184	26.2	38,771	24.7	14,413	37.2
Aerospace and Defense	76,465	37.8	57,814	36.8	18,651	32.3
	<u>\$ 202,693</u>	<u>100.0 %</u>	<u>\$ 157,085</u>	<u>100.0 %</u>	<u>\$ 45,608</u>	<u>29.0 %</u>

The increases in revenue from the Industrial market for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were driven by increases in unit sales outside of China, partially offset by lower average selling prices due to changes in product mix and lower unit sales in China. The increases in revenue from the Microfabrication market for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were driven by increases in demand and unit sales of semiconductor lasers. The increases in revenue from the Aerospace and Defense market for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were primarily due to increased activity on existing research and development contracts, offset partially by a decrease in product sales.

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	
	2021	% of Revenue	2020	% of Revenue	\$	%
North America	\$ 37,430	51.8 %	\$ 31,384	50.8 %	\$ 6,046	19.3 %
China	13,709	19.0	19,186	31.1	(5,477)	(28.5)
Rest of World	21,096	29.2	11,162	18.1	9,934	89.0
	<u>\$ 72,235</u>	<u>100.0 %</u>	<u>\$ 61,732</u>	<u>100.0 %</u>	<u>\$ 10,503</u>	<u>17.0 %</u>

	Nine Months Ended September 30,				Change	
	2021	% of Revenue	2020	% of Revenue	\$	%
North America	\$101,659	50.2 %	\$ 72,924	46.4 %	\$ 28,735	39.4 %
China	48,045	23.7	52,723	33.6	(4,678)	(8.9)
Rest of World	52,989	26.1	31,438	20.0	21,551	68.6
	<u>\$202,693</u>	<u>100.0 %</u>	<u>\$ 157,085</u>	<u>100.0 %</u>	<u>\$ 45,608</u>	<u>29.0 %</u>

Geographic revenue information is based on the location to which we ship our products. The increases in North America revenue for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were primarily driven by increased revenue from the Aerospace and Defense and Industrials markets. The decreases in China revenue for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were primarily due to decreased sales in the Industrial market. The increases in Rest of World revenue for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were primarily due to increased sales in the Microfabrication and Industrial markets.

Cost of Revenues and Gross Margin

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

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, 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 %

	Three Months Ended September 30, 2020			
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	\$ 16,977	\$ 688	\$ (505)	\$ 17,160
Gross margin	33.2 %	6.5 %	NM	27.8 %

	Nine Months Ended September 30, 2020			
	Laser Products	Advanced Development	Corporate and Other	Total
Gross profit	\$ 39,198	\$ 1,708	\$ (1,189)	\$ 39,717
Gross margin	29.4 %	7.1 %	NM	25.3 %

The increases in Laser Products gross margin for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were driven primarily by sales mix, product cost improvements, and improved factory utilization from higher production volume. The fluctuations in Advanced Development gross margin for the three and nine months ended September 30, 2021, compared to the same periods of 2020, were primarily due to 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	
	2021	2020	\$	%
Research and development	\$ 14,838	\$ 11,126	\$ 3,712	33.4 %

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Research and development	\$ 40,830	\$ 29,136	\$ 11,694	40.1 %

The increases in research and development expense for the three and nine months ended September 30, 2021, compared to the same periods in 2020, were primarily due to increases in stock-based compensation of \$1.2 million and \$3.8 million, respectively, and increased employee headcount and related costs, and project-related expenses, to support our development efforts.

Sales, General and Administrative

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Sales, general, and administrative	\$ 13,316	\$ 10,010	\$ 3,306	33.0 %

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Sales, general, and administrative	\$ 40,087	\$ 27,343	\$ 12,744	46.6 %

The increases in sales, general and administrative expense for the three and nine months ended September 30, 2021, compared to the same periods in 2020 were primarily due to increases in stock-based compensation of \$1.9 million and \$8.9 million, respectively, and increased employee costs and professional service fees to support our continued growth.

Interest Income (Expense), net

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Interest income (expense), net	\$ (20)	\$ (96)	\$ 76	79.2%

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Interest income (expense), net	\$ (126)	\$ 122	\$ (248)	(203.3)%

The change in interest income (expense), net, for the nine months ended September 30, 2021, compared to the same period in 2020 were primarily attributable to increase in bank charges and changes in the market rates on money market funds, offset partially by the March 2021 cash infusion from our public offering of stock. There was no significant change in interest income (expense), net, for the three months ended September 30, 2021, compared to the same period in 2020.

Other Income (Expense), net

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
Other income (expense), net	\$ 102	\$ 477	\$ (375)	78.6%

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Other income (expense), net	\$ 246	\$ 63	\$ 183	290.5%

The fluctuations in other income (expense), net for the three and nine months ended September 30, 2021, compared to the same periods in 2020 were 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	
	2021	2020	\$	%
Income tax expense (benefit)	\$ 203	\$ (1,485)	\$ 1,688	(113.7)%

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
Income tax expense (benefit)	\$ (513)	\$ (162)	\$ (351)	216.7 %

We record income tax expense for taxes in our foreign jurisdictions including Finland, Italy and Korea. 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 U.S. and China, we continue to maintain a full valuation allowance in both jurisdictions as of September 30, 2021.

The increase in income tax expense for the three months ended September 30, 2021 compared to the same period in 2020 was driven by a discrete tax benefit related to return to provision true ups in the third quarter of 2020. The increase in income tax benefit for the nine months ended September 30, 2021, compared to the same period in 2020 was driven by a decrease in income from our Finland operations and a discrete tax benefit related to return to provision true ups and an expiring statute of limitations on unrecognized tax positions. Our tax expense is dependent on the geographic mix of earnings and primarily related to our foreign operations.

Liquidity and Capital Resources

We had cash and cash equivalents of \$165.6 million and \$102.3 million as of September 30, 2021 and December 31, 2020, respectively.

For the nine months ended September 30, 2021, our principal uses of liquidity were to fund our working capital needs, purchase property, plant and equipment, and make withholding tax payments related to the vesting of stock awards. Our principal source of liquidity for the nine months ended September 30, 2021 was from our equity offering.

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

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

	Nine Months Ended September 30,	
	2021	2020
Net cash provided by operating activities	\$ 2,687	\$ 14,694
Net cash used in investing activities	(14,230)	(20,280)
Net cash provided by (used in) financing activities	75,060	(1,638)
Effect of exchange rate changes on cash	(256)	373
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 63,261</u>	<u>\$ (6,851)</u>

Net Cash Provided by Operating Activities

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.

During the nine months ended September 30, 2020, net cash provided by operating activities was \$14.7 million, which was primarily driven by \$16.4 million of net loss reported for the period, and non-cash adjustments of \$28.7 million related to depreciation and amortization, stock-based compensation, and other items. These items were partially offset by increases of \$6.4 million in inventory and \$10.6 million in accounts payable. The increase in inventory supported new product introductions, decreased customer lead times and increased safety stock. The increase in accounts payable was primarily driven by timing of vendor payments.

Net Cash Used in Investing Activities

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.

During the nine months ended September 30, 2020, net cash used in investing activities was \$20.3 million, primarily resulting from \$19.4 million of capital expenditures related to the acquisition of commercial property and other investments in manufacturing equipment for our worldwide operations.

Net Cash Provided by Financing Activities

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.

During the nine months ended September 30, 2020, net cash used in financing activities was \$1.6 million, which was primarily driven by \$3.3 million of withholding tax payments related to vesting of restricted stock awards, offset by \$1.8 million of proceeds from stock options exercises and employee stock program purchases. In addition, the \$15.0 million in proceeds from our revolving line of credit drawn in the first quarter of 2020 was paid in full during the third quarter of 2020.

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.

On September 24, 2021, we amended the LOC to extend the maturity date to September 24, 2024, remove LIBOR references and update the financial covenants.

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, 2021 and we were in compliance with all covenants.

Contractual Obligations

For the nine months ended September 30, 2021, our operating lease obligations increased by approximately \$5.1 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, 2020.

Off-Balance Sheet Arrangements

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

Inflation

While we do not believe that inflation had a material effect on our business, financial condition or results of operations through September 30, 2021, we have experienced higher than expected increases in wages and other compensation costs, and shipping costs during the six months ended September 30, 2021. We expect those 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.

Recent Accounting Pronouncements

See Note 1 of Notes to Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in Part II of our Annual Report on Form 10-K for the year ended December 31, 2020. Our exposure to market risk has not changed materially since December 31, 2020.

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, 2021 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

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

There have been no material changes to the legal proceedings disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

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, 2020. 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, 2020.

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	Second Amendment, dated May 27, 2021, to the Second Amended and Restated Loan and Security Agreement, dated September 24, 2018, by and between nLIGHT, Inc. and Pacific Western Bank					X
10.2	Third Amendment, dated September 24, 2021, to the Second Amended and Restated Loan and Security Agreement dated September 24, 2018, by and between nLIGHT, Inc. and Pacific Western Bank	8-K	001-38462	10.1	September 28, 2021	
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 5, 2021

Date

By: /s/ SCOTT KEENEY

Scott Keeney

President and Chief Executive Officer
(Principal Executive Officer)

November 5, 2021

Date

By: /s/ RAN BAREKET

Ran Bareket

Chief Financial Officer
(Principal Accounting and Financial Officer)