

Risk Factors Comparison 2025-01-10 to 2024-01-05 Form: 10-K

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In this section, we describe what we believe to be the material risks related to our business. The risks and uncertainties described below or elsewhere in this report are not the only ones to which we are exposed. Additional risks and uncertainties not presently known and / or risks we currently deem immaterial may also adversely affect our business and operations. If any of the developments included in the following risks were to occur, our business, financial condition, results of operations, cash flows, or prospects could be materially adversely affected.

Risks Related to Our Industry and International Operations The cyclical nature of our business causes fluctuations in our operating results. The machine tool industry is highly cyclical and changes in demand can occur abruptly in the geographic markets we serve. As a result of this cyclicity, we have experienced significant fluctuations in our sales, which, in periods of reduced demand, have adversely affected our results of operations and financial condition, which could re- occur in the future. Material adverse developments in global economic conditions, or the occurrence of certain other world events, could negatively affect demand for our products and harm our business. Economic uncertainty and business downturns in the U. S., European, and Asian Pacific markets have adversely affected, and may in the future adversely affect, our results of operations and financial condition. Global economic uncertainty has produced, and continues to produce, substantial stress, volatility, illiquidity, and disruption of global credit and other financial markets. Various factors contribute to the uncertain economic environment, including geopolitical tensions, military conflicts, the level and volatility of interest rates, the level of inflation, the continuing effects of ~~the COVID-19~~ regional or global health pandemic pandemics, an actual recession or fears of a recession, trade policies and tariffs, and political and governmental instability. Economic uncertainty has and could continue to negatively affect the businesses and purchasing decisions of companies in the industries we serve. Such disruptions present considerable risks to our businesses and operations. As global economic conditions experience stress and negative volatility, or if there is an escalation in regional or global conflicts, or terrorism, we will likely experience reductions in the number of available customers and in capital expenditures by our remaining customers, longer sales cycles, deferral, or delay of purchase commitments for our products and increased price competition, any of which may adversely affect our business, results of operations and liquidity. Our international operations pose additional risks that may adversely impact sales and earnings. During fiscal year ~~2023~~ 2024, approximately 61 % of our revenues were derived from sales to customers located outside of the Americas. In addition, our main manufacturing facilities are located outside of the U. S. Our international operations are subject to a number of risks, including:

- trade barriers;
- regional economic uncertainty and nationalistic trade strategies;
- differing labor regulation;
- governmental expropriation;
- domestic and foreign customs and tariffs;
- current and changing regulatory environments affecting the importation and exportation of products and raw materials;
- difficulty in obtaining distribution support;
- difficulty in staffing and managing widespread operations;
- differences in the availability and terms of financing;
- political instability and unrest;
- negative or unforeseen consequences resulting from the introduction, termination, modification, or renegotiation of international trade agreements or treaties or the imposition of countervailing measures or anti- dumping duties or similar tariffs;
- foreign exchange controls that make it difficult to repatriate earnings and cash;
- changes in tax regulations and rates in foreign countries; and
- changes in the geopolitical environment, wars, conflicts, or trade barriers or blockades in the European Union and Asia, which may adversely affect business activity and economic conditions globally and could continue to contribute to instability in global financial and foreign exchange markets, as well as disrupt the free movement of goods, services, and people between countries.

20 Quotas, tariffs, taxes, or other trade barriers could require us to attempt to change manufacturing sources, reduce prices, increase spending on marketing or product development, withdraw from or not enter certain markets, or otherwise take actions that could be adverse to us and / or that we might not be able to accomplish in a timely manner or at all. Also, in some foreign jurisdictions, we may be subject to laws limiting the right and ability of entities organized or operating therein to pay dividends or remit earnings to affiliated companies unless specified conditions are met. These factors may adversely affect our future operating results. The vast majority of our products are shipped from our manufacturing facility in Taiwan from the Port of Taichung to four ports of destination: Los Angeles, California; Tacoma, Washington; Venlo, the Netherlands; and Shanghai, China. Changes in customs requirements, as a result of national security or other constraints put upon these ports, may also have an adverse impact on our results of operations. Similarly, significant delays at one or more of the ports where our products are shipped or received has impacted, and could continue to impact, the amount of time required to ship our products to customers, which could materially adversely impact our business, demand for our products, our ability to meet quoted delivery dates, our results of operations, future operations, and / or financial condition. Additionally, we must comply with complex foreign and U. S. laws and regulations in a multitude of jurisdictions, such as the U. S. Foreign Corrupt Practices Act, the U. K. Bribery Act, other foreign laws prohibiting corrupt payments to governmental officials, and anti- competition regulations. Violations of these laws and regulations could result in fines and penalties, criminal sanctions, tariffs or duties, restrictions on our business conduct and on our ability to offer our products in one or more countries, and could also materially adversely affect our brand, our ability to attract and retain employees, our international operations, our business and our operating results. Although we have implemented policies, procedures, and training designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies. Finally, a significant portion of our manufacturing, production, and assembly operations are located in certain limited geographic territories, including the People’s Republic of China (“ China ”) and the Republic of China (“ Taiwan ”). The ~~An unplanned interruption in manufacturing or supply, or significant increase in price from third party suppliers,~~ could have a material adverse effect on our business, results of operations, and financial

condition. Such an interruption or increase in price could result from various factors, including a change in the political environment, such as trade wars or tariffs, a natural disaster, such as an earthquake, typhoon, or tsunami, or vulnerabilities in our technology or cyber-attacks against our information systems, such as ransomware attacks. Also, any interruption in service by one of our key component suppliers, if prolonged, could have a material adverse effect on our business, results of operations and financial condition. ~~20~~ Additionally, the geopolitical environment and ongoing sovereign relationship between China and Taiwan, including recent heightened tensions between them, could have a material impact on our business. Specifically, if a trade war, tariff, physical or economic blockade, or war ensued and impacted access to or from the Taiwan or Chinese markets or workforce, we could have challenges maintaining production plans or output, accessing the skilled labor necessary to produce our products without interruption, accessing and / or shipping our finished goods, work in progress, or other inventories located in either of those territories, accessing or maintaining our supply base that is located in those territories or elsewhere, and / or otherwise experience significant disruptions in our business. Such disruptions, if prolonged, could have a material adverse effect on our business, results of operations, and financial condition. In such a case, we may be forced to relocate and / or shift production facilities to other geographic territories to mitigate the risks associated with consolidating our manufacturing operations in such territories, which would likely result in disruptions to our production plans and / or our ability to meet forecasted customer demand in the near and medium term, all of which could have a material adverse effect on our business, financial results, future operations, and / or financial position. **21** Fluctuations in the exchange rates between the U. S. dollar and any of several foreign currencies can increase our costs and decrease our revenues. Our sales to customers located outside of the Americas, which generated approximately 61 % of our revenues in fiscal year ~~2023~~ **2024**, are invoiced and received in several foreign currencies, primarily the Euro, Pound Sterling and Chinese Yuan. Therefore, our results of operations and financial condition are affected by fluctuations in exchange rates between these currencies and the U. S. dollar, both for purposes of actual conversion and for financial reporting purposes. In addition, we are exposed to exchange risk associated with our purchases of materials and components for our Taiwan manufacturing operations, which are primarily made in the New Taiwan Dollar and the Euro. We hedge a portion of our foreign currency exposure with the purchase of forward exchange contracts. These hedge contracts only mitigate the impact of changes in foreign currency exchange rates that occur during the term of the related contract period and carry risks of counterparty failure. There can be no assurance that our hedges will have their intended effects. We compete with larger companies that have greater financial resources, and our business could be harmed by competitors' actions. The markets in which our products are sold are extremely competitive and highly fragmented. In marketing our products, we compete with other manufacturers in terms of quality, reliability, price, value, delivery time, service, and technological characteristics. We compete with a number of U. S., European, and Asian competitors, many of which are larger and have substantially greater financial resources and some of which have been supported by governmental or financial institution subsidies and, therefore, may have competitive advantages over us. Our financial resources are limited compared to those of many of our competitors, making it challenging to remain competitive. ~~21~~ Operational and Strategic Risks Our competitive position and prospects for growth may be diminished if we are unable to develop and introduce new and enhanced products on a timely basis that are accepted in the market. The machine tool industry is subject to technological change, evolving industry standards, changing customer requirements, and improvements in and expansion of product offerings. Our ability to anticipate changes in technology, industry standards, customers' requirements, and competitors' product offerings, and to develop and introduce new and enhanced products on a timely basis that are accepted in the market, are significant factors in maintaining and improving our competitive position and growth prospects, and we may not be able to accomplish those actions on a timely basis or at all. If the technologies or standards used in our products become obsolete or fail to gain widespread commercial acceptance, our business would be materially adversely affected. Developments by others may render our products or technologies obsolete or noncompetitive. Our continued success depends on our ability to protect our intellectual property. Our future success depends, in part, upon our ability to protect our intellectual property. We rely principally on nondisclosure agreements, other contractual arrangements, trade secret law, trademark registration, and patents to protect our intellectual property. However, these measures may be inadequate to protect our intellectual property from infringement by others or to prevent misappropriation of our proprietary rights. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do U. S. laws. Our inability to protect our proprietary information and enforce our intellectual property rights through infringement proceedings could have a material adverse effect on our business, financial condition, and results of operations. **22** We are also subject to claims that we may be infringing certain patent or other intellectual property rights of third parties. While it is not possible to predict the outcome of patent and other intellectual property litigation, such litigation could result in our payment of significant monetary damages and / or royalty payments, negatively impact our ability to sell current or future products, reduce the market value of our products and services, lower our profits, and could otherwise have an adverse effect on our business, financial condition, and results of operations. Finally, certain subcontractors, vendors, and third parties provide inputs, components, code, and / or similar items that are complimentary and compatible with our products, software, and controls. If we are unable to secure access and / or rights to any such inputs, components, code, or similar items, our ability to continue to produce our products without interruption could be challenged, which could materially and adversely impact our business, financial condition, results of operation, and demand for our products. ~~22~~ Disruptions in our manufacturing operations or the supply of materials and components could adversely affect our business, results of operations and financial condition. We depend on our wholly owned subsidiaries, HML, NHML, Milltronics, and LCM, to produce our machine tools and electro- mechanical components and accessories in Taiwan, China, the U. S., and Italy, respectively. We also depend on our 35 % owned affiliate, HAL, and other key third- party suppliers to produce our computer control systems and key components, such as motors and drives, for our machine tools. An unplanned interruption in manufacturing or supply, or a significant increase in price from third party suppliers, would have a material adverse effect on our business, results of operations, and financial condition. Such an interruption or increase in price could result from various factors, including a

change in the political environment, such as trade wars or tariffs, military conflicts, a natural disaster, such as an earthquake, typhoon, or tsunami, or vulnerabilities in our technology or cyber- attacks against our information systems, such as ransomware attacks. Any interruption in service by one of our key component suppliers, if prolonged, could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to establish additional or replacement suppliers for such components in a reasonable period of time, or on commercially reasonable terms, if at all, which could result in delays or interruptions in our operations, which would adversely affect our business, results of operations and financial condition. Fluctuations in the price of raw materials and other inputs, especially steel, iron, and energy, could adversely affect our sales, costs, and profitability. We manufacture products with a high iron and steel content. The availability and price for these and other raw materials, as well as for other inputs such as energy, are subject to volatility due to worldwide supply and demand forces, speculative actions, inventory levels, exchange rates, production costs, anticipated or perceived shortages, geopolitical relationships or conflicts, and tariffs or other trade restrictions. In some cases, those cost increases can be passed on to customers in the form of price increases, in other cases, they cannot. If the prices of raw materials and other inputs increase and we are not able to charge our customers higher prices to compensate, our results of operations would be adversely affected. The unanticipated loss of current members of our senior management team and other key personnel may adversely affect our operating results. The unexpected loss of members of our senior management team or other key personnel could impair our ability to carry out our business plan. We believe that our future success will depend, in part, on our ability to attract and retain highly skilled and qualified personnel. The loss of senior management or other key personnel may adversely affect our operating results as we incur costs to replace the departed personnel and potentially lose opportunities in the transition of important job functions. **23** Acquisitions could disrupt our operations and harm our operating results. We actively seek ~~additional~~ opportunities to expand our product offerings or the markets we serve by acquiring other companies, product lines, technologies, and personnel. Acquisitions involve numerous risks, including the following: • difficulties integrating the operations, technologies, products, and personnel of an acquired company or being subjected to liability for the target’ s pre- acquisition activities or operations as a successor in interest; • diversion of management’ s attention from normal daily operations of the business; • potential difficulties completing projects associated with in- process research and development; • difficulties entering markets in which we have no or limited prior experience, especially when competitors in such markets have stronger market positions; • initial dependence on unfamiliar supply chains or relatively small supply partners; • insufficient revenues to offset increased expenses associated with acquisitions; ~~and~~ **23** ~~and~~ • the potential loss of key employees of the acquired companies. Acquisitions may also cause us to: • issue common stock that would dilute our current shareholders’ percentage ownership; • borrow and subject us to increasing interest rates; • assume or otherwise be subject to liabilities of an acquired company; • record goodwill and non- amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges; • incur amortization expenses related to certain intangible assets; • incur large acquisition and integration costs, immediate write- offs, and restructuring and other related expenses; and • become subject to litigation. Mergers and acquisitions are inherently risky. No assurance can be given that our acquisitions will be successful. Further, no assurance can be given that an acquisition will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate an acquisition could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, there can be no assurance that enhancements to those products will be made in a timely manner or that pre- acquisition due diligence will identify all possible issues that might arise with respect to such products or the acquired business. Risks related to new product development also apply to acquisitions. For additional information, please see the risk factor entitled, “ Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excessive. ” **24** Failure to comply with data privacy and security laws and regulations could adversely affect our operating results and business. A number of U. S. states have enacted data privacy and security laws and regulations that govern the collection, use, disclosure, transfer, storage, disposal, and protection of sensitive personal information, such as social security numbers, financial information, and other personal information. For example, several U. S. territories and all 50 states now have data breach laws that require timely notification to individual victims, and at times regulators, if a company has experienced the unauthorized access or acquisition of sensitive personal data. Other state laws include the California Consumer Privacy Act (“ CCPA ”), which gives California residents certain privacy rights in the collection and disclosure of their personal information and requires businesses to make certain disclosures and take certain other acts in furtherance of those rights. Additionally, effective starting January 1, 2023, the California Privacy Rights Act (the “ CPRA ”) revised and significantly expanded the scope of the CCPA. The CPRA also created a new California data protection agency authorized to implement and enforce the CCPA and the CPRA, which could result in increased privacy and information security regulatory actions. Other states have considered and / or enacted similar privacy laws. We will continue to monitor and assess the impact of these state laws, which may impose substantial penalties for violations, impose significant costs for investigations and compliance, allow private class- action litigation, and carry significant potential liability for our business. **24** Outside of the U. S., data protection laws, including the U. K. and E. U. General Data Protection Regulation (the “ GDPR ”), also apply to some of our operations. Legal requirements in these countries relating to the collection, storage, processing and transfer of personal data continue to evolve. The GDPR imposes, among other things, strict obligations and restrictions on the collection and use of U. K. and E. U. personal data, a requirement for prompt notice of data breaches in certain circumstances, a requirement for implementation of certain approved safeguards (such as the use of approved “ standard contractual clauses ” and the performance of appropriate data transfer impact assessments) for transfers of personal data to other countries that have not been determined by the E. U. or the U. K. to provide adequate data privacy protections, and possible substantial fines for any violations. Brazil, India, South Africa, Japan, China, Israel, Canada, and numerous other countries have introduced and, in some cases, enacted, similar data privacy and cyber and data security laws. The interpretation and enforcement of the laws and regulations described above are uncertain and subject to change and may require substantial

costs to monitor and implement compliance with any additional requirements. Failure to comply with U. S. and international data protection laws and regulations could result in government enforcement actions (which could include substantial civil and / or criminal penalties), private litigation and / or adverse publicity, and could negatively affect our operating results and business.

25 If our network and system security measures are breached and unauthorized access is obtained to our data, to our employees', customers', or vendors' data, or to our critical information technology systems, we may incur legal and financial exposure and liabilities. As part of our business, we store our data and certain data about our employees, customers, and vendors in our information technology systems. If a third party gained unauthorized access to our data, including any data regarding our employees, customers, or vendors, the security breach could expose us to risks, including loss of business, litigation, and possible liability. Our security measures may be breached as a result of third- party action, including intentional misconduct by computer hackers, employee error, malfeasance, or otherwise. Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords, or other information to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. In addition, given their size and complexity, our information systems could be vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third- party vendors, and / or business partners, or from cyber- attacks by malicious third parties attempting to gain unauthorized access to our products, systems, or confidential information. Like other public, multi- national corporations, we have and will continue to be subject to, instances of phishing attacks on our email systems, other cyber- attacks, including state- sponsored cyber- attacks, industrial espionage, insider threats, computer denial- of- service attacks, computer viruses, ransomware, and other malware, wire fraud, or other cyber incidents. The techniques used to obtain unauthorized access, or to sabotage systems, are becoming more sophisticated, frequent, and adaptive, and therefore, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in: the unauthorized publication of our confidential business or proprietary information; the unauthorized release of employee, customer, or vendor data and payment information; a loss of confidence by our customers; damage to our reputation; a disruption to our business; litigation and legal liability; and a negative impact on our future sales. In addition, the cost and operational consequences of implementing further data protection or data restoration measures could be significant.

~~25~~ Public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases have disrupted, and could continue to disrupt, our operations and materially and adversely affect our business, financial condition, and results of operations. Widespread public health emergencies or outbreaks of epidemics, pandemics, or contagious diseases, such as the COVID- 19 pandemic, have had, and could in the future have, a material adverse effect on our business, financial condition, and results of operations. The full extent to which a global health crisis ~~, such as COVID- 19,~~ will impact our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new medical and other information that may emerge as a result and the actions by governmental entities or others to contain it or treat its impact. The impacts of a ~~potential resurgence of COVID- 19 or other~~ severe global health crisis could pose the risk that we or our employees, suppliers, customers and others may be restricted or prevented from conducting business activities for indefinite or intermittent periods of time, including as a result of employee health and safety concerns, shutdowns, shelter in place orders, travel restrictions and other actions and restrictions that may be prudent or required by governmental authorities.

~~26~~ ~~We, our suppliers, and our customers had modified our business practices for the continued health and safety of our employees during the outbreak of COVID- 19. If a resurgence of COVID- 19 or other severe global~~ **Global** health crisis ~~occurs, it could disrupt our ability to deliver and / or install machines, our procurement of supplies for our operations, and our customers' purchasing behavior or decisions, including reduced demand for our products that could continue for an extended period of time. Any or all of the foregoing in jurisdictions where we or our customers, suppliers, or business partners are located have had and could in the future have a material adverse effect on our business, results of operations, cash flows, and financial condition. In addition, fluctuations in demand and other implications associated with~~ **a global health crisis, such as** COVID- 19 **pandemic,** have resulted in, and could continue resulting in, certain supply chain constraints and challenges. **Financial, Credit, and Liquidity Risks** Due to future changes in technology, changes in market demand, or changes in market expectations, portions of our inventory may become obsolete or excessive. The technology within our products evolves, and we periodically bring new versions of our machines to market. The phasing out of an old product involves estimating the amount of inventory required to satisfy the final demand for those machines and to satisfy future repair part needs. Based on changing customer demand and expectations of delivery times for repair parts, we may find that we have either obsolete or excess inventory on hand. Because of ~~unforeseen future~~ changes in technology, market demand or ~~competition~~ **market expectations**, we might have to write off unusable inventory, which would adversely affect our results of operations. Assets have become, and may become further, impaired, requiring us to record a significant charge to earnings. We review our assets, including intangible assets, for indications of impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. We could be required to record a significant charge to earnings in our financial statements for the period in which any impairment of these assets is determined, which would adversely affect our results of operations for that period.

~~26~~ **We may experience negative or unforeseen tax consequences. We may experience negative or unforeseen tax consequences, which could materially adversely affect our results of operations. We review the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income in both the U. S. and foreign jurisdictions. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax- planning opportunities, and other relevant considerations. Adverse changes in our profitability and financial outlook in the U. S. or foreign jurisdictions may require the creation of a valuation allowance to reduce our net deferred tax assets. Such changes could result in material non- cash expenses in the period in which the changes are made and could have a material adverse impact on our results of operations and financial condition. We also earn a significant amount of our operating income from outside the U. S., and any**

repatriation of funds representing earnings of foreign subsidiaries may significantly impact our effective tax rates. We are subject to taxes in the U. S. and numerous foreign jurisdictions. Due to economic and political conditions, tax rates in various jurisdictions, including the U. S., may be subject to significant change. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation, including tax laws in the U. S. Similarly, changes in tax laws or regulations, including those in the U. S., could negatively impact our effective tax rate and results of operations. A change in a statutory tax rate may result in the revaluation of our deferred tax assets and liabilities related to the relevant jurisdiction in which the new tax law is enacted, potentially resulting in a material expense or benefit recorded in our Consolidated Statements of Income for that period. 27