PIVOTAL SYSTEMS

ARBN: 626 346 325

ASX Appendix 4E
Preliminary Final Report

For the year ended 31 December 2021
(Incorporating information pursuant to ASX listing rule 4.3A)

Table of Contents

Key Information

- **Results for Announcement to the Market**

	2021 US$'000	2020 US$'000	Up/Down %
Revenue from ordinary activities	29,245	21,756	Up 34%
Gross Profit	9,143	342	Up 2573%
Loss from Operations	-5,085	-12,691	Down 60%
Net loss attributable to common stockholders	-4,647	-12,922	Down 64%

The financial results above are presented under US GAAP. The Company transitioned to US GAAP from IFRS during the year ended 31 December 2021 and the comparative numbers have also been restated under US GAAP.

- **Review of Operations and Financial Results**

As of 31 December 2021, Pivotal Systems Corporation, together with its consolidated subsidiary (the Company) has delivered a second record year of revenue growth, with strong demand for its leading-edge products and services, despite component supply constraints that persisted for much of FY2021; a direct result of the overall strength in the semiconductor sector globally.

The Company recorded unaudited full year revenue of US$29.2M (2020: US$21.8M) which represents a 34.4% increase driven by strong demand from existing OEM and IDM customers. Unaudited gross profit expanded significantly to 31.3% of revenues (2020: 1.6%).

Operating expenses for the period were $14.2M (2020: $13.0M) and were of a level to maintain the integrity and quality of operations while preparing for a potential listing on a US securities exchange. These expenses include a 22.5% increase in R&D costs ($1.2M) primarily due to spending on ALD related projects. Selling, general and administrative expenses were relatively flat versus prior year.

Loss from Operations was $5.1M (2020: $12.7M), substantially lower than the prior period's due to the improvement in gross profit.

In December, Pivotal successfully completed the Non-Recurring Engineering (NRE) Agreement with Japan's largest Original Equipment Manufacturer (OEM), fulfilling the requirements of developing a next generation gas flow control product for incorporation into this OEM's semiconductor production equipment in ALD. According to MarketWatch, Kenneth Research report published on December 2021, the market for Atomic Layer Deposition (ALD) tools is expected to grow at a compound annual growth rate (CAGR) of 29% to US$8 billion by 2024.

This is the second NRE Agreement with this large Japanese OEM, which has leveraged the Company's world class engineering team and leading-edge capability to develop sophisticated, highly differentiated, and innovative new product lines to meet their future flow control solutions in a cost-effective and timely manner. Pivotal's next generation GFCs deliver excellent control in gas flow, thereby increasing the efficiency of ALD manufacturing processes with associated improvements in yield and lower overall input costs over time.

During 2021 the Company experienced supply shortages, particularly attributable to semiconductor chips utilized in the manufacture of printed circuit boards used in Pivotal GFCs. The supply bottleneck is global in nature and has impacted several different industries, including the Wafer Fabrication Equipment (WFE) market. However, Pivotal's team navigated around these constraints to deliver another year of growth.

The underlying drivers of demand for WFE remain unchanged, and demand is expected to show significant growth into 2022, despite a very strong 2021. Additional government spending initiatives in the US, South Korea, Japan and the EU to grow domestic semiconductor manufacturing and invest in-leading edge chip development remain long term drivers of industry growth.

As announced on 23 December 2021, the Company's reporting standards have been changed from AASB/IFRS to U.S. GAAP from FY2021. Refer to the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Redeemable Preferred Stock and Stockholders' Equity, Consolidated Statement of Cash Flows and accompanying notes.

- **Dividends**

  No dividends have been paid or are proposed to be paid by Pivotal Systems Corporation for the financial year 2021 (2020: $Nil).

- **Net Tangible Assets per share:**

	2021	2020
Net tangible assets per share * (US$ per share)	0.14	0.12

*Right of use asset in respect to property leases have been excluded from the calculation of net tangible assets.

- **Control Gained or Lost Over Entities**

  There were no changes in control over entities by Pivotal Systems Corporation or its wholly owned subsidiary during the financial year.

- **Details of Associates and Joint Venture Entities**

  The Company has no investments in associates or joint ventures during the reporting period.

- **Accounting Standards**

  The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

  As the Company has transitioned from AASB/IFRS to US GAAP reporting from FY2021, the impact of this GAAP conversion for the period ended 31 December 2021 is presented in the Additional Information section.

- **Audit Status**

  This report is based on accounts which are in the process of being audited.

John Hoffman (*Director*)
24 February 2022 (Fremont PST), 25 February 2022 (Sydney AEST)

Additional Information

Conversion from AASB/IFRS to US GAAP

Presentation of Consolidated Financial Statements under US GAAP

These consolidated financial statements, for the year ended 31 December 2021, are the first the Company has presented to the ASX in accordance with US GAAP. For periods up to and including the year ended 31 December 2020, the Company presented its consolidated financial statements in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Company's consolidated balance sheet also includes prior period adjustments due to IFRS conversion. This section explains the principal adjustments made by the Company in converting its IFRS consolidated financial statements to US GAAP as of, and for, the year ended 31 December 2021 (thousands of US$).

Reconciliation of the Consolidated Balance Sheet as of 31 December 2021

	IFRS	Prior years adjustments		Current year adjustments		US GAAP
Assets						
Current Assets						
Cash And Cash Equivalents	3,988	-		-		3,988
Accounts Receivable, Net	9,008	-		-		9,008
Inventory	7,099	-		-		7,099
Prepaid Expenses	332	-		-		332
Other Current Assets	295	-		-		295
Total Current Assets	**20,722**	-		-		**20,722**
Property and Equipment, Net	650	(401)	A	87	A	336
Right of use assets, Net	697	-		-		697
Intangible Assets, Net	15,205	(11,999)	B	(3,206)	B	-
Deferred offering costs	2,190	-		-		2,190
Other Assets	558	-		-		558
Total Assets	**40,022**	**(12,400)**		**(3,119)**		**24,503**
Liabilities, Redeemable Preferred Stock and Stockholders' Equity						
Liabilities						
Current Liabilities	**6,028**	-		-		**6,028**
Lease Liability - Non-current	473	-		-		473
Other Long-term liabilities	253	-		-		253
Total Liabilities	**6,754**	**-**		**-**		**6,754**
Redeemable Preferred Stock				**11,318**	D	**11,318**

	IFRS	Prior years adjustments		Current year adjustments		US GAAP
Stockholder's Equity						
Common Stock	1	-		-		1
Additional Paid in Capital	196,975	(70,058)	C,E	(11,286)	D,E	115,631
Accumulated Deficit	(163,708)	57,658	B,C	(3,151)	F	(109,201)
Total Stockholders' Equity	**33,268**	**(12,400)**		**(14,437)**		**6,431**
Total Liabilities, Redeemable Preferred Stock and Stockholders' Equity	**40,022**	**(12,400)**		**(3,119)**		**24,503**

Reconciliation of the Consolidated Statement of Operations for the year ended 31 December 2021

	IFRS	Adjustments	Note	US GAAP
Product sales	27,652	-		27,652
Service revenue	1,593	-		1,593
Total Net Revenue	29,245			29,245
Cost of goods sold	19,125	38	E, F	19,163
Cost of Services	939	-		939
Gross Profit	**9,181**	**(38)**		**9,143**
Operating Expenses				
Research and Development Expense	3,302	3,231	B	6,533
Selling, General and Administrative Expense	7,747	(52)	A, E, F	7,695
Total Operating Expenses	**11,049**	**3,179**		**14,228**
Loss From Operations	**(1,868)**	**(3,217)**		**(5,085)**
Interest expense	(186)	66	F	(120)
Other Income/(Expense)	986	-		986
Foreign currency transaction gain/(loss)	(12)	-		(12)
Loss Before Income Taxes	**(1,080)**	**(3,151)**		**(4,231)**
Provision for income taxes	48	-		48
Net loss	**(1,128)**	**(3,151)**		**(4,279)**

A. Property Plant and Equipment
   This adjustment is related to R&D capitalized projects that were reclassified as equipment in 2020 as they were assigned to the sales department. The equipment was amortized during its useful life of 5 years and subject to impairment. Under GAAP, the Company reversed equipment costs for $435,206, depreciation expense for $87,041, and accumulated amortization for $121,657 as they did not comply with the criteria to be capitalized.

B. Development Costs
Under AASB/IFRS, the Company capitalized costs relating to development activities when it could demonstrate technical feasibility of completing the intangible asset, intention to complete the intangible asset and use or sell it, how the intangible asset would generate probable future benefits, among others. These costs were amortized for 5 years and subject to impairment analysis. Under US GAAP, costs relating to research and development activities are expensed as incurred, unless the costs relate to an item that has an alternative future use. As a result, in the US GAAP financial statements the Company reversed the net capitalized intangible for $12M from prior years, $4.5M current year additions, and $1.3M amortization expense.

C. Preferred Stock and Warrant Liability
Prior to 2017, the Company issued several series of preferred stock, common stock warrants and preferred stock warrants which were duly converted to common shares immediately prior to the Company's IPO in the Australian Stock Exchange, ASX. Under AASB/IFRS, these financial instruments were classified as financial liabilities measured at fair value through profit and loss. Under US GAAP, Preferred Stock was classified as mezzanine equity, common stock warrants were classified as equity and preferred stock warrants were classified as liability and recorded at fair value with changes in fair value recorded in the income statement. The impact of the fair value reversal is $69.7M and is presented as a debit in Additional Paid in Capital and a credit in Accumulated Deficit.

D. Reclassification of Preferred Stock
Under AASB/IFRS, preferred stock with non-mandatory redeemable terms is classified as equity. Under the US GAAP accounting policies applies, the Company presents such amounts as mezzanine equity. The adjustment reclassifies the Company's Revenue Based Redeemable Preferred Stock (RBI) out of Equity for $11.3M.

E. Stock based compensation
The Company has mainly stock options that vest in installments based on service conditions only. Under AASB/IFRS, share-based payments expense is accounted for under the accelerated method. Under US GAAP, the Company has elected to apply the straight-line method to account for these stock options. The use of the straight-line method results in less compensation cost being recognized in earlier years. For US GAAP purposes, the Company reversed $0.4M share-based payments expense from prior years.

During 2021, stock-based compensation under US GAAP was $31,826 higher than the expense under AASB/IFRS. This impact is presented in the statement of operations.

F. Lease Expense
Under AASB/IFRS the interest expense on the lease liability is a component of finance costs, which is presented separately in profit or loss. Under US GAAP, for operating leases, lease expense is included in income from continuing operations consistent with the presentation of other operating expenses and should be classified within cost of sales; selling, general, and administrative expense; or another expense line item depending on the nature of the lease. The adjustment of $66,062 reclassifies interest expense of the lease liability from finance costs to cost of sales ($16,857), research and development expense ($25,285) selling general and administrative expense ($23,880).

PIVOTAL SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2020	December 31, 2021
Assets		
Current assets:		
Cash	$ 6,983	$ 3,988
Trade accounts receivable, net	6,762	9,008
Inventories	6,817	7,099
Prepaid expenses	314	332
Other current assets	602	295
Total current assets	21,478	20,722
Property, plant and equipment, net	765	336
Right of use assets, net	954	697
Deferred offering costs	—	2,190
Other assets	28	558
Total assets	$ 23,225	$ 24,503
Liabilities, Redeemable Preferred Stock and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 3,089	$ 3,770
Accrued expenses	2,597	880
Current portion of long-term debt	1,604	808
Current portion of operating lease liabilities	261	294
Other current liabilities	701	276
Total current liabilities	8,252	6,028
Long term debt, less current portion	1,088	—
Operating lease liabilities, less current portion	770	473
Other liabilities	—	253
Total liabilities	10,110	6,754
Commitments and contingencies (Note 13)		
Redeemable preferred stock, par value $0.00001 per share, 13,000 shares authorized as of December 31, 2020 and 2021, 10,000 and 11,528 shares outstanding as of December 31, 2020 and December 31, 2021; aggregate liquidation preference of $12,000 and $14,260 as of December 31, 2020 and December 31, 2021	9,795	11,319
Stockholders' equity:		
Common stock, $0.00001 par value; 250,000,000 shares authorized as of December 31, 2020 and December 31, 2021; 120,240,769 and 128,546,316 shares issued and outstanding as of December 31, 2020 and December 31, 2021	1	1
Common prime stock, $0.00001 par value; 120,000,000 shares authorized as of December 31, 2020 and December 31, 2021; no shares issued and outstanding as of December 31, 2020 and December 31, 2021	—	—
Additional paid-in capital	108,241	115,630
Accumulated deficit	(104,922)	(109,201)
Total stockholders' equity	3,320	6,430
Total liabilities, redeemable preferred stock and stockholders' equity	$ 23,225	$ 24,503

The accompanying notes are an integral part of these consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Year Ended December 31, 2020	Year Ended December 31, 2021
Net product revenue	$ 20,780	$ 27,652
Service revenue	976	1,593
Total net revenue	21,756	29,245
Cost of goods sold	21,045	19,163
Cost of service revenue	369	939
Total costs of goods and service revenue	21,414	20,102
Gross profit	342	9,143
Operating expenses:		
Research and development	5,335	6,533
Selling, general and administrative	7,698	7,695
Total operating expenses	13,033	14,228
Loss from operations	(12,691)	(5,085)
Other (expense) income:		
Interest expense	(187)	(120)
Foreign currency transaction gain (loss)	(1)	(12)
Gain on forgiveness of PPP loan	—	906
Other income, net	—	80
Interest and other income (expense), net	(188)	854
Loss before provision for income taxes	(12,879)	(4,231)
Provision for income taxes	43	48
Net loss	$ (12,922)	$ (4,279)
Less deemed dividend to redeemable preferred stockholders	—	(368)
Net loss attributable to common stockholders, basic and diluted	$ (12,922)	$ (4,647)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.11)	$ (0.04)
Weighted average common shares outstanding	113,901,635	123,711,465

The accompanying notes are an integral part of these consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Par Value			
Balance at December 31, 2019 .	—	—	113,269,313	1	103,229	(92,000)	11,230
Proceeds from the sale of redeemable preferred stock, net of issuance costs of $205 ...	10,000	9,795	—	—	—	—	—
Issuance of common stock upon stock options exercise	—	—	846,670	—	147	—	147
Issuance of shares upon institutional placement, net of issuance costs of $24	—	—	6,124,786	—	3,976	—	3,976
Stock-based compensation	—	—	—	—	889	—	889
Net loss	—	—	—	—	—	(12,922)	(12,922)
Balance at December 31, 2020 .	10,000	$ 9,795	120,240,769	$ 1	$ 108,241	$ (104,922)	$ 3,320
Proceeds from the sale of redeemable preferred stock, net of issuance costs of $4	3,000	2,996	—	—	—	—	—
Issuance of shares upon institutional placement, net of issuance costs of $184	—	—	7,137,795	—	6,502	—	6,502
Issuance of common stock upon stock options exercise	—	—	1,167,752	—	293	—	293
Redeemable preferred stock redemptions	(1,472)	(1,472)	—	—	(368)	—	(368)
Stock-based compensation ...	—	—	—	—	962	—	962
Net loss	—	—	—	—	—	(4,279)	(4,279)
Balance at December 31, 2021 .	11,528	$ 11,319	128,546,316	$ 1	$ 115,630	$ (109,201)	$ 6,430

The accompanying notes are an integral part of these consolidated financial statements

PIVOTAL SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2021
Cash Flows from Operating Activities		
Net loss	$ (12,922)	$ (4,279)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	433	366
Non-cash lease expense	238	257
Stock-based compensation	889	962
Gain on forgiveness of PPP loan	—	(906)
Gain on sale of property, plant and equipment	—	(56)
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,744)	(2,246)
Inventories	1,506	(282)
Prepaid expenses	(1)	(18)
Other current assets	274	(134)
Other assets	(4)	56
Trade accounts payable	64	505
Accrued expenses	126	(1,717)
Other current liabilities	478	(538)
Operating lease liabilities	(224)	(264)
Net cash used in operating activities	(10,887)	(8,294)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(890)	(185)
Net cash used in investing activities	(890)	(185)
Cash Flows from Financing Activities		
Proceeds from borrowings on long-term-debt	956	—
Payments on borrowings of long-term-debt	(1,000)	(1,000)
Proceeds from the exercise of stock options	147	293
Proceeds from the issuance of common stock, net of issuance costs	3,976	6,502
Proceeds from issuance of redeemable preferred stock, net of issuance costs	9,795	2,996
Payments on redemption of preferred stock	—	(1,840)
Payment of deferred issuance costs	—	(2,023)
Net cash provided by financing activities	13,870	4,928

Net increase (decrease) in cash	2,093	(3,547)
Cash and restricted cash at beginning of year	5,446	7,539
Cash and restricted cash at end of year	$ 7,539	$ 3,988
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 43	$ 49
Cash paid for interest	$ 157	$ 96
Non-cash investing and financing activities:		
Purchases of property, plant, and equipment in accounts payable	$ —	$ 9
Deferred issuance costs in accounts payable	$ —	$ 168
Gain of forgiveness of PPP loan	$ —	$ 906
Disposal of property, plant and equipment in exchange for note receivable	$ —	$ 278

The accompanying notes are an integral part of these consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of the Business and Basis of Presentation

Pivotal Systems Corporation, together with its consolidated subsidiary (the Company), designs, develops and manufactures flow monitoring and control technology products for the global semiconductor industry. The Company's proprietary hardware and software utilizes advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fab productivity and capital efficiency technology nodes. The Company is incorporated in Delaware, United States and has offices in Fremont, California, USA (headquarters) and third party contracted manufacturing and assembling facilities in Shenzhen, China and Dongtan, South Korea.

The Company's securities have been listed for quotation in the form of CHESS Depositary Interests, or CDIs, on the Australian Securities Exchange (the ASX) and trade under the symbol PVS since July 2, 2018. Legal title to the shares of common stock underlying the CDIs is held by CHESS Depositary Nominees Pty Ltd (CDN), a wholly owned subsidiary of the ASX. One CDI represents the beneficial interest in one share of common stock.

Impact of the COVID-19 Coronavirus

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The pandemic has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of the COVID-19 pandemic.

The Company continues to monitor the rapidly evolving conditions and circumstances as well as guidance from international and domestic authorities, including public health authorities, and the Company may need to take additional actions based on their recommendations. There is considerable uncertainty regarding the impact on the Company's business stemming from current measures and potential future measures that could restrict access to the Company's facilities, limit manufacturing and support operations and place restrictions on the Company's workforce and suppliers. The measures implemented by various authorities related to the COVID-19 outbreak have caused the Company to change its business practices including those related to where employees work, the distance between employees in the Company's facilities, limitations on the in person meetings between employees and with customers, suppliers, service providers, and stakeholders as well as restrictions on business travel to domestic and international locations or to attend trade shows, investor conferences and other events.

The full extent to which the ongoing COVID-19 pandemic adversely affects the Company's financial performance will depend on future developments, many of which are outside of the Company's control, are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the pandemic, its severity, the effectiveness of actions to contain the virus or treat its impact and how quickly and to what extent normal economic and operating conditions can resume. The COVID-19 pandemic could also result in additional governmental restrictions and regulations, which could adversely affect the Company's business and financial results. In addition, a recession, depression or other sustained adverse market impact resulting from COVID-19 could materially and adversely affect the Company's business and its access to needed capital and liquidity. Even after the COVID-19 pandemic has lessened or subsided, the Company may continue to experience adverse impacts on its business and financial performance because of its global economic impact.

To the extent that the COVID-19 pandemic adversely affects the Company's business, results of operations, financial condition or liquidity, it also may heighten many of the other risks. Such risks include, if the business impacts of COVID-19 carry on for an extended period, these impacts could cause the Company to recognize impairments of long-lived assets as well as interrupt the ability of our outside suppliers to reliably deliver some of the critical materials and components used to manufacture our flow control products.

The Company has taken actions to mitigate its financial risk given the uncertainty in global markets caused by the COVID-19 pandemic. During the second quarter of fiscal year 2020, the Company applied for and received a Paycheck Protection Program (PPP) loan (see Note 11 – Notes Payable). The loan was forgiven in January 2021.

On March 27, 2020, the President of the United States signed and enacted into law the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). The CARES Act contains numerous tax provisions including a correction to the applicable depreciation rates available in the original Tax Cuts and Jobs Act (TCJA) for Qualified Improvement Property (QIP). The Company is currently evaluating the impact of this change and will adjust historical income tax filings if deemed beneficial. Additional income tax provisions of the CARES Act are currently being evaluated and not expected to have a material impact.

Liquidity and Going Concern

The Company has incurred recurring losses and negative cash flows from operating activities since inception. The Company anticipates that it will continue to incur net losses into the near future. As of December 31, 2021, the Company had cash of $4.0 million and had an accumulated deficit of $109.2 million.

The Company believes that cash as of December 31, 2021 of $4.0 million, together with $10.0 million of cash proceeds raised from the sale of equity during the first quarter of 2022, will be sufficient to fund its planned operations for a period of at least 12 months from the date of the issuance of the accompanying consolidated financial statements.

Management expects to incur additional losses in the future to fund its operations and will need to raise additional capital to fully implement its business plan. The Company may raise additional capital through the issuance of equity securities, debt financings or other sources in order to further implement its business plan. However, if such financing is not available when needed and at adequate levels, the Company will need to reevaluate its operating plan and may be required to curtail its business operations.

2. Summary of Significant Accounting Policies

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). and include the accounts and results of operations of the Company and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Such estimates relate to revenue recognition, the useful lives of fixed assets, leases, allowances for doubtful accounts. Such estimates also relate to the net realizable value of inventory, accrued liabilities, the valuation of stock-based awards, deferred tax valuation allowances, and other reserves. On an ongoing basis, the Company evaluates its estimates. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

Business Segment Information

The Company operates in one segment which involves the technological design, development, manufacture, and sale of high-performance flow controllers. All the activities of the Company are interrelated, and each activity is dependent on the others. Accordingly, all significant operating disclosures are based upon analysis of the Company as one segment. The financial results of this segment are equivalent to the financial statements of the Company as a whole.

The chief operating decision maker, who is the Company's chief executive officer, measures financial performance as a single enterprise and not on legal entity or end market basis. Throughout the year, the chief operating decision maker allocates capital resources on a project-by-project basis across the Company's entire asset base to maximize profitability without regard to legal entity or end market basis.

Foreign Currency

The Company's consolidated financial statements are presented in U.S. Dollar. For each entity in the consolidated group, the Company determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. As of and for the years ended December 31, 2020 and 2021, the Company has determined that the U.S. dollar is the functional currency of the entities in the consolidated group.

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Exchange differences arising on the translation of monetary items are recognized in the consolidated statements of operations.

Credit Risk and Concentrations

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable.

The Company places its cash in high credit quality financial institutions. Substantially all of the Company's cash is held at one financial institution that management believes is of high credit quality. Such deposits may, at times, exceed federally insured limits. In general, the Company's customers are not required to provide collateral or any other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintain an allowance for estimated credit losses. Bad debt expense was immaterial for the years ended December 31, 2020 and 2021.

Fair Value of Financial Instruments

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (at 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. The Company establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, which are provided below:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs (other than Level 1 prices) such as quoted prices for similar assets or 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 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or examination.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company's cash and restricted cash is carried at fair values as determined according to the fair value hierarchy. The carrying value of accounts receivable, accounts payable and accrued expenses approximate their respective fair value due to the short-term nature of these assets and liabilities. The carrying value of the term loan and outstanding borrowings under the line of credit agreement approximate fair value as they bear interest at a rate approximating a market interest rate.

Cash and Restricted Cash

The Company considers all highly liquid investments with an original maturity date of three months or less at the date of purchase to be cash equivalents. Cash is maintained at financial institutions. The Company maintains all cash in a highly liquid form to meet current obligations.

Cash and restricted cash (which is presented within other current assets in the consolidated balance sheets) consist of the following at December 31, 2020 and 2021:

	2020	2021
Cash	$ 6,983	$ 3,988
Restricted cash	556	—
Total cash and restricted cash	$ 7,539	$ 3,988

Trade accounts receivable, net

A receivable is a right to consideration that is unconditional (i.e., only the passage of time is required before payment is due). Accounts receivables are presented net of an allowance for doubtful accounts, which is an estimate of amounts that may not be collectible.

The Company manages the collectability of accounts receivable primarily through its review of the accounts receivable aging. When facts and circumstances dictate the collection of a specific invoice amount or the balance relating to a customer is in doubt, the Company assesses the impact on amounts recorded for doubtful accounts and, if necessary, records a charge in the fiscal period that such assessment is determined. Adjustments to the allowance for doubtful accounts are recorded as selling, general and administrative expenses in the consolidated statements of operations. Account balances are written off after all means of collection are exhausted and the potential for non-recovery is determined to be probable.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined on a first-in, first-out basis. The Company records inventory valuation adjustments when conditions exist that suggest that inventory may be more than anticipated demand, is obsolete based upon expected future demand for products and market conditions, or quality related rejections. These valuation adjustments are reported as a reduction to raw materials, work in process and finished goods. The Company regularly evaluates the ability to realize the value of inventory based on a combination of factors, including historical usage rates, forecasted sales or usage, and product end of life dates. Assumptions used in determining management's estimates of future product demand may prove to be incorrect, in which case the Company may need to record additional write offs of inventory. Although the Company performs a detailed review of its forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of the Company's inventory and reported operating results.

Property, Plant and Equipment, Net

Property, plant and equipment, net, including improvements that significantly add to productive capacity or extend useful life, are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs expenditures are charged to expense as incurred. Estimated useful lives of the respective property, plant and equipment assets are as follows:

Asset	Useful Life
Plant and equipment	2 – 5 years
Furniture and fixtures	2 – 5 years
Computers and equipment	3 years
Software	2 years
Leasehold improvements	The shorter of the remaining term of the lease or estimated useful life

Leases

The Company accounts for leases in accordance with Accounting Standards Codification (ASC) ASC 842, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASC 842 was adopted as of January 1, 2019. The Company determines if a contract contains a lease based on whether it has the right to obtain substantially all the economic benefits from the use of an identified asset and whether we have the right to direct the use of an identified asset in exchange for consideration, which relates to an asset which the Company does not own. Right-of-use (ROU) assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are recognized as the lease liability, adjusted for lease incentives received and prepayments made. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate (IBR) because the interest rate implicit in most of our leases is not readily determinable.

The IBR is a hypothetical rate based on the Company's understanding of what its credit rating would be. Lease payments may be fixed or variable; however, only fixed payments or in-substance fixed payments are included in the Company's lease liability calculation. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments is incurred.

The ROU asset also includes any initial direct costs and any lease payments made prior to the lease commencement date and is reduced by any lease incentives received. The ROU asset is amortized on a straight-line basis as the operating lease cost over the lease term on the consolidated statements of operations. ROU asset amortization, referred to as non-cash lease expense, along with the change in the operating lease liabilities are separately presented within the cash flows from operating activities on the consolidated statements of cash flows.

Impairment of Long-Lived Assets

Long-lived assets are tested for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Factors that the Company considers in deciding when to perform an impairment review include significant underperformance of the business in relation to expectations, significant negative industry or economic trends and significant changes or planned changes in the use of the assets. If an impairment review is performed to evaluate a long-lived asset for recoverability, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. To date, the Company has not recorded any impairment losses on long-lived assets. If such assets are not impaired, but their useful lives have decreased, the remaining net book value is amortized over the revised useful life.

Product Warranties

The Company provides warranties on its products to its customers, generally for one to three years from the date of shipment. In the event of a failure of a product covered by these warranties, the Company must repair or replace the product or, if those remedies are insufficient, and at the discretion of the Company, provide a refund. The Company periodically assesses the adequacy of the warranty reserve and adjusts the amount as necessary. If there is a material increase in the rate of customer claims, or the Company's estimates of probable losses relating to specifically identified warranty exposures are inaccurate, the Company may need to record a charge against future cost of goods sold. As of December 31, 2020 and 2021, the Company had accrued warranty reserves of $115,000 and $115,000, respectively.

Redeemable Preferred Stock

The Company classifies redeemable preferred stock, outside of stockholders' equity because, upon the occurrence of certain change in control events that are outside the Company's control, including liquidation, sale or transfer of the Company's assets, or events of default, holders of the redeemable preferred stock can cause redemption for cash. If it becomes probable that the shares will become redeemable, the Company will re-measure the carrying value of the shares to the redemption value to the redemption date. As of December 31, 2021, no remeasurements were required, as the Company determined that the shares were not probable of becoming redeemable. The Company analyzed all embedded derivatives and beneficial conversion features for its redeemable preferred stock and concluded that none requires bifurcation.

Revenue Recognition

The Company earns revenue from contracts with customers, primarily through the design, development, manufacture and sale of flow controllers. Contracts are priced based on specific negotiations with each customer. The Company records revenue under ASC 606.

Under the guidance of ASC 606, revenue is recognized when transfer of control to the customer occurs in an amount reflecting the consideration that the Company expects to be entitled. To achieve this core principle, the Company applies the following five step approach:

(1) *Identify the contract with a customer* — The Company considers distributor or sales representative agreements, together with purchase orders, as well as individual customer purchase orders to be customer contracts. A contract exists when it is approved by both parties, each party's rights and obligations are identified, payment terms are known, customer has the ability and intent to pay and the contract has commercial substance. The Company uses judgement in determining the customer's ability and intent to pay, which is based on factors such as the customer's historical payment experience.

(2) *Identify the performance obligations in the contract* — Performance obligations are identified as products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract. Substantially, all the Company's contracts with customers contain single performance obligation, such as the sale of flow controllers.

(3) *Determine the transaction price* — The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring products to the customer. The transaction price may include variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that no significant future reversal of cumulative revenue under the contract will occur.

(4) *Allocate the transaction price to the performance obligations in the contract* — If the contract contains a single performance obligation, the entire transaction price is allocated to that

performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligations based on a relative standalone selling price (SSP). For the periods ended December 31, 2020 and 2021, contracts including multiple performance obligations are infrequent.

(5) *Recognize revenue when a performance obligation is satisfied* — Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs point in time at shipment. The Company records product sales net of discounts, sales returns and allowances.

Service revenue

Service revenue is recognized upon transfer of control of promised services to customers in an amount that reflects the consideration that the Company expects to receive in exchange for those products or services. These services are regularly sold on a stand-alone basis. Contracts that include the provision of services are typically related with repair services, which are generally capable of being distinct and accounted for as separate performance obligations. Repair services are typically sold on a time and materials basis and related revenue is recognized once the repaired product is shipped or delivered to the customer. These services are provided at a point in time.

ASC 606 defines "control" as "the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset." The Company first determines whether control of a service is transferred over time when at least one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, the Company recognizes revenue by measuring progress toward satisfying the performance obligation in a manner that faithfully depicts the transfer of goods or services to the customer. Considering that repair services are generally satisfied when the Company has transferred physical possession of the repaired product, the related revenue is recognized at a point in time.

Sales channels

The Company sells products and services primarily in the United States and Asia through its direct sales force, third party distributors and independent sales representatives. When the Company transacts with a distributor, its contractual arrangement is with the distributor and not with the end user. Whether the Company transacts business with and receives the order from a distributor or directly from an end user, its revenue recognition policy and resulting pattern of revenue recognition for the order are the same.

The Company also uses independent sales representatives to assist in the sales process with certain customers. Sales representatives are not distributors. If a sales representative is engaged in the sales process, the Company receives the order directly from and sells the products directly to the end customer. The Company pays a commission to the sales representative, calculated as a percentage of the related customer payment. Sales representatives commissions are recorded as expenses when incurred and are classified as sales and marketing expenses in the Company's consolidated statements of operation.

Variable consideration

Variable consideration includes returns for which reserves are established. When applicable, these reserves are based on the amounts earned or claimed on the related sales and are classified as reductions of accounts receivable. Where appropriate, these estimates take into consideration the Company's historical experience, current contractual and statutory requirements, industry data and forecasted customer buying and payment patterns.

Practical expedients elected

The Company elected certain practical expedients with the adoption of the new revenue recognition standard. The length of time between revenue recognition and payment is not significant under any of the Company's payment terms. However, if the period between revenue recognition and when the customer pays is one year or less, the Company elected to not account for the significant financing component.

In addition, the Company expenses incremental costs of obtaining a contract as and when incurred because the expected amortization period of the asset that the Company would have recognized is one year or less.

Other Revenue Recognition Policies

Shipping and handling activities are not considered a fulfillment cost. The Company records shipping and handling costs as a cost of goods sold.

Contract Assets and Contract Liabilities

Contract liabilities (deferred revenue) consist of advance consideration received from customers and billings more than revenue recognized as deferred revenue, which precede the Company's satisfaction of the associated performance obligations. The Company's contract liabilities primarily result from customer payments received upfront for performance obligations that are satisfied at a point in time. Contract liabilities are recognized as revenue when the goods are delivered to the customer. As of December 31, 2020, and December 31, 2021 the Company had contract liabilities of $575,000 and $37,000, respectively. There were no deferred cost of goods sold as of December 31, 2020. As of December 31, 2021, the Company had deferred cost of goods sold of $5,000.

Due to the relationship between the Company's performance and the customer's payment, the Company typically does not have conditional rights to consideration in exchange for goods or services transferred to a customer. Generally, the Company has the right to bill the customer as goods are delivered and services are provided, which results in the Company's right to payment being unconditional. Therefore, the Company does not have contract assets as of December 31, 2020, or December 31, 2021.

Due to the nature of the product, each contract with a customer has distinct performance obligations that are capable of being distinct on their own and within the context of the contract. In addition, based on the contract terms, which generally include performance obligations subject to cancellation terms, the Company does not have material unsatisfied performance obligations.

Research and Development Expenses

Research and development costs consist primarily of salaries, employee benefits, depreciation, amortization, overhead, outside contractors, facility expenses, and non-recurring engineering fees. Expenditures for research and development are charged to expense as incurred.

Stock-Based Compensation

The Company recognizes compensation costs for all stock-based compensation awards made to employees based upon the awards' grant-date fair value. The fair value of the equity-settled share options granted throughout the year is estimated as at the date of grant using a Black Scholes Option Pricing Model. Stock-based compensation expense is recognized evenly over the requisite service period, which is generally the vesting period. The Company accounts for forfeitures as they occur. Determining the fair value of the stock-based compensation awards at the grant date requires judgment, including estimated the expected term of the stock awards and the volatility of the underlying market-based and projected future cash flow assumptions. Any changes to those estimates that the Company makes from time to time may have a significant impact on the stock-based compensation expense recorded and could materially impact the Company's results of operations.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities, as measured by enacted tax rates anticipated to be in effect when these differences are expected to reverse. This method also requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not. Deferred tax expense or benefit is the result of changes in the deferred tax assets and liabilities. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes, based upon the weight of available evidence, it is more likely than not that some or all the deferred tax assets will not be realized, a valuation allowance is established.

The Company recognizes a liability for potential payments of taxes to various tax authorities related to uncertain tax positions and other tax matters. The recorded liability is based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is "more likely than not" to be realized. The amount of the benefit that may be recognized in the consolidated financial statements is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. To the extent that the assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The Company establishes a liability, which is included in other long-term liabilities in the consolidated balance sheets, for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These liabilities are established when the Company believes that certain positions might be challenged despite the Company's belief that the tax return positions are fully supportable. The recorded liability is adjusted considering changing facts and circumstances. The provision for income taxes includes the impact of the recorded liability and the related changes.

When incurred, the Company recognizes interest and penalties related to uncertain tax positions as a component of income tax provision in the consolidated statements of operations. Accrued interest and penalties are included in accrued income taxes in the consolidated balance sheets.

Net Loss Per Share

The Company computes net income per share in accordance with ASC 260, *Earnings Per Share* (ASC 260). Basic net loss per share is computed by dividing net loss attributable to shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed similarly to basic net income per share, except that it includes the potential dilution that could occur if dilutive securities were exercised. Information about potentially dilutive and antidilutive shares for the reporting period is provided in Note 15 - Net Loss per Share.

Concentrations of Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. To manage credit risk related to accounts receivables, the Company evaluates its creditworthiness of its customers and maintains allowances, to the extend necessary, for potential credit losses based upon the aging of its accounts receivable balances and known collection issues. There were no expected credit losses as of December 31, 2020 and 2021.

Geographically, the Company has the following revenue information based on the location of its customers during the years ended December 31, 2020 and 2021 (in thousands):

	2020	2021
Asia	$ 3,645	$ 7,673
North America	18,111	21,572
	$ 21,756	$ 29,245

The categorization of net sales by geography is determined based on the location the products are being shipped to.

The following customers accounted for more than 10% of revenues during the years ended December 31, 2020 and 2021:

	2020	2021
Customer A.	58%	38%
Customer B	13%	17%
Customer C	21%	17%
Customer D	0%	17%
	92%	89%

The following customers accounted for more than 10% of accounts receivable during the years ended December 31, 2020 and 2021:

	2020	2021
Customer A.	41%	31%
Customer B	13%	28%
Customer C	23%	4%
Customer D	10%	0%
Customer E	0%	14%
	87%	77%

Impact of Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments” (ASU 2016-13), which adds an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity by decreasing the number of credit impairment models that entities use to account for debt instruments. ASU 2016-03, along with its subsequent clarifications, was effective for public companies beginning after December 15, 2019 and is effective for nonpublic companies for fiscal years beginning after December 15, 2021. The Company is currently assessing the impact of the accounting standard update.

The Company qualifies as emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 and has elected to “opt in” to the extended transition related to complying with new or revised accounting standards, which means that when a standard is issued or revised and it has different application dates for public and nonpublic companies, the Company will adopt the new or revised standard at the time nonpublic companies adopt the new or revised standard and will do so until such time that the Company either (i) irrevocably elects to “opt out” of such extended transition period or (ii) no longer qualifies as an emerging growth company. The Company may choose to early adopt any new or revised accounting standards whenever such early adoption is permitted for nonpublic companies.

There are no recently issued accounting standards which have not been previously adopted which are expected to have a material impact the Company’s financial statements.

3. Revenue from Customers

The Company earns revenue from customers, primarily through the design, development, manufacture, and sale of flow controllers. The following table summarizes net revenues disaggregated by type of customer and by geography for the fiscal years ended December 31, 2020 and 2021. The categorization of net revenues by customer type is determined using various characteristics of the product and the application into which the Company’s product will be incorporated.

Net revenues by core end market and application were as follows for the years ended December 31, 2020 and 2021 (in thousands):

	2020	2021
Customer type:		
Integrated device manufacturer (IDM)	$ 1,228	$ 5,994
Original equipment manufacturer (OEM)	20,528	23,251
Total net revenue	$ 21,756	$ 29,245

The Company recognizes revenues net of discounts.

Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. The Company elected to not disclose the amount of unsatisfied performance obligations as these contracts have original expected durations of less than one year.

4. Trade Accounts Receivable, net

Trade accounts receivable, net consisted of the following (in thousands):

	December 31, 2020	December 31, 2021
Trade accounts receivable	$ 6,762	$ 9,008
Less:		
Allowance for doubtful accounts	—	—
Total trade accounts receivable, net	$ 6,762	$ 9,008

5. Inventories

Inventories include material, labor and overhead and consisted of the following (in thousands):

	December 31, 2020	December 31, 2021
Raw materials	$ 3,333	$ 4,276
Work in process	1,680	1,357
Finished goods	1,804	1,466
Total inventories	$ 6,817	$ 7,099

During the years ended December 31, 2020 and 2021, the Company recorded inventory provisions totaling $185,000 and $994,000, respectively.

6. Property, Plant and Equipment, net

Property, plant and equipment, net is stated at cost, and consisted of the following (in thousands):

	December 31, 2020	December 31, 2021
Furniture and fixtures	$ 123	$ 121
Computers and equipment	2,170	1,937
Software	125	125
Leasehold improvements	201	130
Total property, plant and equipment, gross	2,619	2,313
Less: accumulated depreciation	(1,854)	(1,976)
Total property, plant and equipment, net	$ 765	$ 336

Total depreciation expense was $433,000 and $343,000 for the years ended December 31, 2020 and December 31, 2021, respectively.

The geographic locations of the Company's long-lived assets, net, based on physical location of the assets, as of December 31, 2020 and December 31, 2021 were as follows (in thousands):

	December 31, 2020	December 31, 2021
United States	$ 327	$ 293
South Korea	438	43
Total property, plant and equipment, net	$ 765	$ 336

7. Prepaid Expenses

The composition of prepaid expenses is as follows (in thousands):

	December 31, 2020	December 31, 2021
Prepaid insurance	$ 220	$ 215
Prepaid expenses	75	117
Prepaid other	19	—
Total	$ 314	$ 332

8. Other Current Assets

The composition of other current assets is as follows (in thousands):

	December 31, 2020	December 31, 2021
Restricted cash	$ 556	$ —
Other receivables	46	295
Total	$ 602	$ 295

9. Accrued Expenses

The composition of accrued expenses is as follows (in thousands):

	December 31, 2020	December 31, 2021
Accrued other	$ 47	$ 91
Accrued expenses	1,832	254
Accrued salaries and wages	171	5
Accrued vacation	547	530
Total	$ 2,597	$ 880

10. Other Current Liabilities

The composition of other current liabilities is as follows (in thousands):

	December 31, 2020	December 31, 2021
Contract liabilities	$ 575	$ 37
Accrued warranties	115	115
Deferred product refunds	11	11
Deferred gain on sale of property, plant and equipment	—	113
Total	$ 701	$ 276

Changes in the Company's accrued warranties account were as follows (in thousands):

	Accrued Warranties
Balance at December 31, 2019	$ 164
Warranty expense	234
Settled and expired warranties	(283)
Balance at December 31, 2020	115
Warranty expense	204
Settled and expired warranties	(204)
Balance at December 31, 2021	$ 115

11. Notes Payable

On August 27, 2019, the Company entered into a financing agreement with Bridge Bank, a division of Western Alliance Bank. The financing agreement includes a revolving line of credit with a maximum borrowing capacity of $7.0 million (revolving credit line), and a term loan line of credit with a maximum borrowing capacity of $3.0 million (term loan).

The amount of liquidity available under the revolving credit line is based on the Company's balances and composition of eligible customer receivables and inventory, as well as other factors. Amounts borrowed under the revolving credit line mature and become due and payable in 24 months, unless extended by the parties. The revolving credit line bears interest at a rate equal to 1% above the prime rate, floating on the average outstanding balance. As of December 31, 2020 and 2021, there were no borrowings under the line of credit.

The term loan provides funds for capital expenditures and other corporate purposes and is payable in 36 equal monthly installments of principal, plus all accrued interest commencing in October 2019. The term loan bears interest at a rate of 1.5% above the prime rate, floating on the average outstanding balance and has a $75,000 fee payable upon the earliest of the payoff or final principal payment. On September 3, 2019, the Company drew $3.0 million on the term loan. As of December 31, 2020, the outstanding balance of the term loan was $1.75 million. As of December 31, 2021, the outstanding balance was $750,000. As of December 31, 2020 and 2021, the interest rate for the term loan was 7.25%. The prime rate for both the revolving credit line and the term loan has a floor of 5.25%.

The Company was in compliance with the financial covenants of its borrowing facilities outstanding as of December 31, 2020 and December 31, 2021

The term loan was amended on December 15, 2020, due to non-compliance with the adjusted current ratio covenant during the year ended December 31, 2019 The amendment was accounted for as modification whereby the effective interest rate was adjusted to reflect an interest rate of prime plus 2.0% of the amended term loan. The term loan is secured by all tangible and intangible assets of the Company. The Company was in compliance with the amended debt agreement as of the years ended December 31, 2020 and 2021.

On April 20, 2020, the Company entered a Promissory Note with Western Alliance Bank as the lender (Lender), pursuant to which the Lender agreed to make a loan to the Company under the Payroll Protection Program (PPP Loan) offered by the U.S. Small Business Administration (SBA) in a principal amount of $0.9 million pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (CARES). The PPP Loan matures on April 22, 2022, and bears interest at an annual rate of 1.0%. The PPP Loan may be prepaid without penalty, at the option of the Company, at any time without penalty. The term loan is secured by all tangible and intangible assets of the Company.

The PPP Loan proceeds are available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, Company health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt. The amount that will be forgiven will be calculated in part with reference to the Company's full-time headcount during the 24-week period following the funding of the PPP Loan. The loan was forgiven in January 2021, resulting in a gain on loan forgiveness of $0.9 million, which has been recorded within gain on forgiveness of PPP loan on the consolidated statement of operations.

Maturities of long-term debt are as follows (in thousands):

Year Ending December 31,	Future Maturities of Notes Payable
2022	$ 808
Total	$ 808

12. Leases

The Company's operating lease liabilities as of December 31, 2020 and 2021 are comprised of future payments related to the Company's operating lease agreement for office space, and operating lease for office equipment. Total lease costs for the years ended December 31, 2020 and 2021 were as follows (in thousands):

	2020	2021
Operating lease costs	$ 403	$ 319

The following table presents the weighted average remaining lease term, and weighted-average discount rates related to the Company's operating leases:

	December 31, 2020	December 31, 2021
Weighted average remaining lease term (in months)	40	28
Weighted average discount rate	7.5%	7.5%

Future minimum payments on operating lease liabilities as of December 31, 2021, are as follows (in thousands):

Year Ending December 31,	
2022	$ 340
2023	350
2024	148
Total minimum lease payments	837
Less: Imputed interest	(70)
Total	$ 767

13. Commitments and Contingencies

Legal proceedings

From time to time, the Company becomes subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. The Company records an accrual for legal contingencies when it is determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In making such determinations, the Company evaluates, among other things, the degree of probability of an unfavorable outcome and, when it is probable that a liability has been incurred, the ability to make a reasonable estimate of the loss. If the occurrence of liability is probable but not estimable, the Company will disclose the nature of the contingency, or if reasonably possible and estimable, will also provide the likely amount of such loss or range of loss. Furthermore, the Company does not believe there are any matters that could have a material adverse effect on financial position, results of operations or cash flows.

Flow Device and Systems, Inc. ("Flow Device") has filed a lawsuit against the Company in the United States District Court Central District of California Southern Division (Case No. 8:21-cv-02089) claiming that certain of the company's products infringe U.S. Patent No. 7,204,158, of which Flow Device purports to be the exclusive licensee. The Company believes this lawsuit is without merit and will defend itself vigorously.

Indemnification

From time to time, the Company has agreed to indemnify and hold harmless certain customers for potential allegations of infringement of intellectual property rights and patents arising from the use of its products. To date, the Company has not incurred any costs in connection with such indemnification arrangements; therefore, there was no accrual of such amounts as of December 31, 2020, or December 31, 2021.

14. Common and Redeemable Preferred Stock

Common Stock

The holders of common stock participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid common stock has a par value of $0.00001 and the Company has designated authorized capital of 250,000,000 shares of common stock.

Holders of common stock are entitled to one vote for each share of common stock held. There shall be no cumulative voting. Holders are also entitled to receive, when, as and if declared by our board, out of any assets of the Company legally available therefore, any dividends as may be declared from time to time by our board.

Common Prime Stock

The holders of Common Prime Stock are not entitled to any voting rights or powers, except as otherwise required by law. They are also not entitled to share in any dividends or other distributions of cash, property or shares of the Company as may be declared by our board on the Common Prime Stock. The fully paid Common Prime Stock has a par value of $0.00001 and the Company has designated authorized capital of 120,000,000 shares of Common Prime Stock.

Certain stockholders entered into an escrow agreement with the Company under which the stockholder agreed, among other things, to certain restrictions and prohibitions for a period of time (the Lock-Up Period), from engaging in transactions in the shares of common stock (including common stock in the form of CDIs), shares of common stock that may be acquired upon exercise of a stock option, warrant or other right, and shares of common stock that arise from such common stock (collectively, the Restricted Securities). The Restricted Securities shall automatically be converted into shares of Common Prime Stock, on a one for one basis if the Company determines, in its sole discretion, that the stockholder breached any term of the stockholder's escrow agreement or breached the official listing rules of the ASX relating to the Restricted Securities.

Any shares of common stock converted to Common Prime Stock would be automatically converted back into shares of common stock, on a one for one basis, upon the earlier to occur of (i) the expiration of the Lock-Up Period in the escrow agreement or the (ii) breach of the listing rules being remedied, as applicable.

On July 2, 2020, the Lock-Up Period ended and all the Restricted Securities were released from escrow. No Restricted Securities were converted into shares of Common Prime Stock.

Redeemable Preferred Shares

The authorized capital of the Company includes 13,000 shares of redeemable preferred stock, $0.00001 par value per share, 13,000 of which have been designated redeemable preferred stock. On February 20, 2020, the Company received $10.0 million funding from the issuance of 10,000 shares of redeemable preferred stock to Anzu Industrial RBI USA LLC (now known as Anzu RBI Mezzanine Preferred LLC) (Anzu RBI). The issue costs related with this financing were $0.2 million. On June 2, 2021, the Company received $3.0 million funding from the issuance of 3,000 shares of redeemable preferred stock to Anzu RBI. The issue costs related with this financing were $4,000. Anzu RBI is entitled to a non-cumulative priority preference dividend of 2%, payable at the Company's discretion.

As per the Investment Agreement, the "First Redemption" of redeemable preferred stock will be redeemable based on the aggregate amounts attributed to the prior 10 months (4.0% of net revenues/month). At any time prior to or on the first anniversary of the original issue date, the redemption price is 120% of the original issue price, plus any unpaid dividends. On the day after the first anniversary of the issuance date, and on each anniversary thereafter, the redemption price increases to the original issue price plus the product of $250 dollars multiplied by the number of years from original issuance. After the first redemption, subsequent redemptions of shares of redeemable preferred stock will occur on a quarterly basis and will be based on an amount equal to 4.0% of the Company's previous financial quarter revenues. The number of redeemable preferred shares to be redeemed during the quarter is based on the established share price, as defined in the Investment Agreement. If the Company fails to make an anticipated redemption, Anzu RBI may send notice to state that the anticipated redemption has not been made. The Company would have a 30-day period to make the anticipated redemption. If the anticipated redemption is not made at the end of the period, the redeemable preferred stock redemption price would increase to the greater of the current share price plus $1,000, or $3,000. If the Company fails to make a demanded redemption, the outstanding amount accrues interest at the lower of 17% of the maximum permissible interest rate which is secured on the assets of the Company.

The Company is required to deposit an amount equal to 4.0% of the financial quarter revenues into a bank account to be used for no other purpose than to redeem shares of redeemable preferred stock pursuant to the Investment Agreement. While the total value payable is fixed based on quarterly revenue, the number of shares of redeemable preferred stock to be redeemed decreases if an anticipated redemption is not made. The Company has no contractual obligation to redeem shares of redeemable preferred stock. In the event of a failure to make an anticipated redemption, the Company may indefinitely delay or defer cash settlement at the increased settlement price.

On March 1, 2021, the initial redemption of redeemable preferred stock by the Company took place in accordance with the terms of the redeemable preferred stock and the Certificate of Incorporation of the Company. Therefore, the Company redeemed 609 redeemable preferred shares at $1,250 per share for a total of $761,250. On May 24, 2021, the Company redeemed 193 redeemable preferred shares at $1,250 per share for a total of $241,250. . On August 30, 2021, the Company redeemed 332 redeemable preferred shares at $1,250 per share for a total of $415,000. On November 22, 2021, the Company redeemed 338 redeemable preferred shares at $1,250 per share for a total of $422,500. The amount of consideration paid by the Company to redeemable preferred stockholders' in excess of the amount originally contributed by such shareholders was treated a deemed dividend to the preferred shareholder in the amount of $368,000. The Company has adjusted its net loss per share computation to reflect the value given to redeemable preferred stockholders by the Company (refer to Note 9).

There is no fixed term to the redemption period on the redeemable preferred stock . The Company will redeem shares of redeemable preferred stock upon the occurrence of insolvency, liquidation or similar bankruptcy; an event of default; a change of control or if the Company disposes all or substantially all its assets, property or business.

The redeemable preferred stock carries voting rights of one vote per share during a period in which a dividend or part of a dividend in respect to redeemable preferred stock is in arrears (declared but not paid), or during the winding up of the Company.

The redeemable preferred stock also carry voting rights of one vote per share, on a proposal:

- that affects rights attached to redeemable preferred stock;
- to wind up the Company; or
- for the disposal of the property, business and undertaking of the Company.

The redeemable preferred stock carries voting rights of one vote per share, on a resolution to approve:

- the terms of a share buy-back arrangement, other than the buy-back of redeemable preferred stock ; or
- a reduction in share capital of the Company, other than a reduction with respect to redeemable preferred stock

15. Net Loss per Share

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share amounts):

	2020	2021
Net loss attributable to common stockholders	$ (12,922)	$ (4,279)
Less: Deemed dividend to redeemable preferred stockholders	—	(368)
Net loss attributable to common stockholders	(12,922)	(4,647)
Weighted average basic and diluted common share	113,901,635	123,711,465
Net loss per share attributable to common stockholders – basic and diluted	$ (0.11)	$ (0.04)

Basic net loss per share has been computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing net loss by the weighted average number of shares of common stock and potentially dilutive securities outstanding during the period.

Because the Company is in a net loss position, diluted net loss per share excludes the effects of common stock equivalents consisting of stock options and redeemable preferred stock, which are all anti-dilutive. The total number of shares subject to stock options were excluded from consideration in the calculation of net loss per share.

The following outstanding potentially dilutive shares were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented, because including them would have been anti-dilutive (on an as-converted basis):

	As of December 31,	
	2019	2021
Redeemable preferred stock	10,000,000	11,528,000
Common stock options issued and outstanding	16,734,199	16,548,497
	26,734,199	28,076,497

16. Stock-Based Compensation

The Company grants stock options to its employees, directors, and consultants for a fixed number of shares with an exercise price equal to or greater than the fair value of the common stock at the date of grant. Granted options expire no later than 10 years from the date of grant and generally vest over a four-year period, with 25% vesting on the first anniversary of the grant date and monthly thereafter.

The 2003 Equity Incentive Plan expired in 2012 however 4,408 unexercised options were still outstanding as of December 31, 2020. There were no outstanding unexercised 2003 plan options as of December 31, 2021.

The 2012 Equity Incentive Plan (the Plan) adopted on June 29, 2012, as amended on June 20, 2019, authorizes the Company to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 23,620,222 and 26,965,000 shares of common stock as of December 31, 2020 and December 31, 2021, respectively. Incentive Stock Options (ISOs) may be granted only to employees. Nonqualified stock options may be granted to employees, directors and consultants. The Company issues new shares of common stock upon the exercise of stock options.

The Plan grants are based on employee’s contribution and commitment to the Company over a period of several years plus the ability of the employees to impact and influence the outcome and direction of the organization in the future. The shares under the Plan which are not yet vested will be accounted for as non-cash expense over the remainder of the vesting period.

The Company used Black-Scholes option pricing model to estimate the fair value of option awards using the following assumptions during the years ended December 31, 2020 and 2021:

	2020	2021
Expected volatility	50.7% – 74.5%	59.3% – 67.3%
Risk-free interest rate	0.23% – 0.87%	0.59% – 1.06%
Expected dividend	—%	—%
Expected term (in years)	3 – 4 years	4 years
ASX market price	$0.55 – $0.96	$0.63 – $1.21

The expected term of options granted to employees is based on the expected life of the stock options, giving consideration to the contractual terms and vesting schedules. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not be the actual outcome. The dividend yield was based on the Company’s dividend history and the anticipated dividend payout over its expected term. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximated the Company's expected term.

The following table summarizes the stock awards activity for the fiscal years ended as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (In years)
Outstanding – December 31, 2019	14,469,242	$ 0.46	$ 0.39	6.01
Granted	4,435,000	0.96	0.38	
Exercised	(846,670)	(0.17)		
Forfeited	(1,309,372)	(0.90)		
Cancelled	(14,001)	(12.93)		
Outstanding – December 31, 2020	16,734,199	$ 0.57	$ 0.96	5.92
Granted	2,475,000	1.02	0.47	
Exercised	(1,167,749)	(0.25)		
Forfeited	(1,488,545)	(1.17)		
Expired	(4,408)	(17.70)		
Outstanding – December 31, 2021	16,548,497	$ 0.60	$ 0.24	6.09

As of December 31, 2021, 11,950,703 options had vested. The Company recognizes forfeitures as they occur. As of December 31, 2020 and December 31, 2021, the intrinsic value of options outstanding was $4.9 million and $3.5 million, respectively. During the years ended December 31, 2020 and December 31, 2021, the intrinsic value of options exercised was $0.6 million and $0.9 million, respectively. As of December 31, 2020 and December 31, 2021, the fair value of shares vested was $1.7 million and $2.0 million, respectively.

As of December 31, 2021, there was $1.4 million of compensation costs related to non-vested awards granted under the Company's equity incentive plans not yet recognize don the financial statements. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.8 years.

The Company recorded stock-based compensation expense in the following expense categories of its consolidated statements of operations during the years ended December 31, 2020 and 2021 (in thousands):

	2020	2021
Cost of goods sold	$ 100	$ 59
Research and development	300	323
Selling, general and administrative	489	580
Total stock-based compensation	$ 889	$ 962

17. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents the significant components of the Company's deferred tax assets and liabilities (in thousands):

	December 31, 2020	December 31, 2021
Net operating loss carryforward	$ 10,749	$ 12,212
Research and development credits	1,144	1,437
Depreciation and amortization	57	151
Reserves and accruals	526	585
Total deferred tax assets	12,475	14,385
Valuation allowance	(12,475)	(14,385)
Net deferred tax assets	$ —	$ —

Based on historical losses and the expectation of future losses, management cannot conclude that it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets at December 31, 2020 and 2021. The Company's deferred tax assets are primarily related to net operating losses carryforward. The Company's valuation allowance increased by $2.5 million and increased by $1.9 million for the years ended December 31, 2020 and 2021, respectively. The change in the valuation allowance for both years are primarily due to the addition of net operating losses carryforward.

As of December 31, 2020, and 2021 the Company had federal and state net operating loss carry-forwards of approximately $34.1 million and $95.7 million, respectively, available to reduce future taxable income, if any. The net operating loss carry-forwards will expire beginning 2032 for both federal and California income tax purposes. The federal net operating losses generated on and after 2018 are carried forward indefinitely.

As of December 31, 2020, and 2021 the Company had federal and state research credit carry-forwards of $1.6 and $1.6 million, respectively. Federal tax credits begin to expire in 2037. The state tax credits have no expiration date.

The Company has not performed a Section 382 study to determine whether it had experienced a change in ownership and, if so, whether the tax attributes (net operating losses or credits) were impaired. Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company's ability to utilize net operating loss or other tax attributes, such as research tax credits, in any taxable year may be limited if the Company has experienced an "ownership change." Generally, a Section 382 ownership change occurs if there is a cumulative increase of more than 50 percentage points in the stock ownership of one or more stockholders or groups of stockholders who owns at least 5% of a corporation's stock within a specified testing period. Similar rules may apply under state tax laws.

The following table presents a reconciliation of the federal statutory rate of 21% to our effective tax rate for the years ended December 31 2020, and 2021:

	2020	2021
U.S. federal tax benefit at statutory rate	21.00%	21.00%
State (tax benefit) income taxes, net of federal benefit	0.60%	2.78%
Warrant expense	0.00%	0.00%
Change in valuation allowance	(22.53)%	(34.21)%
Research and development credit (net of reserve)	1.86%	4.86%
Other	(1.12)%	4.90%
Effective tax rate	(0.19)%	(0.67)%

A reconciliation of the unrecognized tax benefit for the years ended December 31, 2020 and 2021 is as follows (in thousands):

	2020	2021
Unrecognized tax benefits as of the beginning of the year	$ 477	$ 576
Increase related to prior year tax provisions	—	40
Decrease related to prior year tax provisions	—	—
Increase related to current year tax provisions	99	101
Unrecognized tax benefits as of the end of the year	$ 576	$ 717

The Company does not expect the unrecognized tax benefits to change significantly over the next 12 months. Interest and penalties are not applicable to those uncertain tax benefits as the Company has experienced taxable losses since inception and has not utilized any of the tax credits in the prior year or current year tax returns.

The Company has not been audited by the Internal Revenue Service or any state income or franchise tax agency. As of December 31, 2021, the Company's federal and state income tax returns for the fiscal years from 2013 to the present are still open to examination. All the net operating losses and research and development credit carryforwards that may be used in future years are still subject to inquiry given the statute of limitation for these items would begin in the year of utilization.

18. Related Party Transactions

On February 20, 2020, the Company received $10.0 million funding from the issue of 10,000 shares of redeemable preferred shares to Anzu Industrial RBI USA LLC (now known as Anzu RBI Mezzanine Preferred LLC). On June 2, 2021, the Company received $3.0 million funding from the issuance of 3,000 shares of redeemable preferred stock to Anzu Industrial RBI USA LLC. This entity is affiliated with Anzu Partners LLC (See Note 8).

As discussed in Note 9, the Company made redemption payments totaling $1.8 million to redeemable preferred stockholders. The Company recorded $368,000 as deemed dividend in connection with the redemption premium paid to Anzu RBI.

On 21 July 2021, the Company received binding commitments for a $6.7 million share placement to new and existing institutional investors, including cornerstone commitments from the Company's largest Australian institutional investor Viburnum Funds along with participation of the Company's second largest shareholder in the US, Anzu Partners, LLC. Out of these commitments, on 28 July 2021, the Company received $5.8 million funding for the issuance of 6,177,809 CDI's, and on September 17th it issued 959,986 CDIs to raise the remaining $0.9 million after obtaining shareholder approval on 13 September 2021.

19. Subsequent Events

On February 3, 2022 the Company announced an underwritten rights offering of 30,315,464 CDIs to raise maximum gross proceeds of $10.5 million. One CDI represents one share of common stock. The offer is available to eligible institutional investors and accredited investors who are existing Company shareholders, as well as eligible retail shareholders. The institutional offering completed on February 15, 2022, a total of 16,410,646 CDIs were issued to institutional investors. The remaining shares are available to retail investors. The retail offering closed on 21 February 2022 with a total of 564,799 CDIs being applied for. The shortfall of CDIs not taken up by existing shareholders will be allocated to the sub-underwriters of the offering, including existing significant shareholders, Anzu

Partners and Viburnum Funds. The CDIs will be issued to retail shareholders and sub-underwriters on 28 February 2022.

The Company has evaluated subsequent events for financial statement purposes occurring through February 24, 2022, the date these financial statements were available to be issued, and determined that no additional subsequent events had occurred that would require recognition in these financial statements.