Appendix 4D and Financial Report for the Half-year Ended 30 June 2022

1. Company Details

Name of entity: Pivotal Systems Corporation
ARBN: 626 346 325

Reporting period: Half-year ended 30 June 2022
Previous Corresponding Period: Half-year ended 30 June 2021

The financial information contained in the attached consolidated financial report of Pivotal Systems Corporation ("Company") is for the half-year ended 30 June 2022. The previous corresponding period was the half-year ended 30 June 2021.

2. Results for Announcement to the Market

	30 Jun 2021 US$'000	30 Jun 2022 US$'000	Up/Down %
Revenue from ordinary activities	13,945	9,022	Down 35%
Gross (Loss) Profit	4,756	(561)	Down 112%
Loss from ordinary activities after tax attributable to common stockholders	(1,445)	(9,839)	Up 550%
Net Loss attributable to common stockholders	(1,645)	(10,042)	Up 510%

3. Review of Operations and Financial Results

Commentary related to the above results and additional information is contained within the attached half-year Financial Report and Directors' Report.

4. Dividends

No dividends have been paid or are proposed to be paid by Pivotal Systems Corporation for the half-year 2022 (2021: $Nil).

5. Net Tangible Assets per share:

	31 Dec 2021	30 Jun 2022
Net tangible assets per share * (US$ per share)	0.11	0.09

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

6. Control Gained or Lost Over Entities

There were no changes in control over entities by Pivotal Systems Corporation or its subsidiaries ("Group") during the financial year.

7. Details of Associates and Joint Venture Entities

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

8. Accounting Standards

The half-year Financial Report has been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

As announced on 23 December 2021 the Company's reporting standards have been changed from International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board to U.S. GAAP from FY2022. As a result, the 30 June 2021 results have been restated under US GAAP. Refer to the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Redeemable Preferred Stock and Stockholders' Equity, Condensed Consolidated Statement of Cash Flows and accompanying notes.

9. Audit Status

The Pivotal Systems Corporation Financial Report for the half-year ended 30 June 2022 has been subject to a review by our external auditors, BDO USA, LLP, and includes an emphasis of matter paragraph on the substantial doubt of the entity to continue as a going concern. A copy of the independent review report to the members of Pivotal Systems Corporation is included within the accompanying half-year Financial Report.

The information contained within this report is to be read in conjunction with the 2021 Annual Report of Pivotal Systems Corporation and any public announcements made to the ASX during the half-year period ending 30 June 2022 pursuant to its continuous disclosure obligations. Further information regarding the Company and its business activities can be obtained by visiting the Company's website at www.pivotalsys.com.

John Hoffman (Executive Chairman)
30 August 2022(Fremont PDT), 31 August 2022 (Sydney AEST)

PIVOTAL SYSTEMS CORPORATION

A DELAWARE CORPORATION
ARBN 626 346 325

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

30 JUNE 2022

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Corporate Directory

Company
Pivotal Systems Corporation
48389 Fremont Blvd, Suite 100
Fremont CA, 94538 USA
Phone: +1 (510) 770 9125
Fax: +1 (510) 770 9126

Website: www.pivotalsys.com

Directors

John Hoffman	Executive Chairman
Kevin Hill	Executive Director and Chief Executive Officer
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
David Michael	Non-Executive Director
Jason Korman	Non-Executive Director

Australian Securities Exchange Representative
Danny Davies

United States Registered Office
c/o Incorporating Services Ltd
3500 South Dupont Highway
Dover, Delaware 19901 USA

Australian Registered Office
c/o Company Matters Pty Limited
Level 12, 680 George Street
Sydney, NSW 2000 Australia

United States Legal Adviser
DLA Piper LLP (US)
555 Mission Street
Suite 2400
San Francisco, California
94105-2933
United States of America

Australian Legal Adviser
Maddocks
Angel Place Level 27
123 Pitt Street
Sydney, NSW 2000 Australia

Share Registry
Australian CDI registry
Link Market Services
Level 12, 680 George Street
Sydney, NSW 2000 Australia
Telephone: +61 1300 554 474
Facsimile: +61 2 9287 0303

US share registry
American Stock Transfer and Trust Company, LLC
6201, 15th Avenue
Brooklyn, NY 11219 USA
Telephone: +1 (718) 921 8386

Securities Exchange Listing
Pivotal Systems Corporation (ASX code: PVS).
Chess Depository Interests ("CDIs") over shares of the Company's common stock are quoted on the Australian Securities Exchange. One CDI represents one fully paid share in the Company.

Directors' Report

The directors present their report for Pivotal Systems Corporation ("Pivotal" or "Company") together with the interim financial statements on the Consolidated Entity (referred to hereafter as the "Consolidated Entity" or "Group") consisting of the Company and its subsidiaries for the half-year period ended 30 June 2022 and the auditor's review report thereon.

DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

John Hoffman	Executive Chairman
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer (retired from the Board on 19 May 2022)
Kevin Hill	Executive Director and Chief Executive Officer (appointed to the Board on 1 June 2022)
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
David Michael	Non-Executive Director
Jason Korman	Non-Executive Director

PRINCIPAL ACTIVITIES

Pivotal designs, develops, manufactures and sells high-performance gas flow control products. This includes the Gas Flow Controller ("GFC") family of products and Flow Ratio Controllers ("FRC") for both etch and deposition applications. The Company's proprietary hardware and software utilizes advanced flow intelligence and proprietary algorithms to enable preventative diagnostic capability resulting in the potential for an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes.

Pivotal is incorporated in Delaware, United States and has offices in Fremont California, USA (headquarters) and third party contracted manufacturing ("CM") and assembling facilities in Shenzhen, China and Dongtan, South Korea.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Financial results

Revenue for the half-year ended 30 June 2022 decreased 35% to $9.0 million (2021 1H: $13.9 million). This was as a result of a decrease in shipments due to a lower demand from our customers, resulting from continued gas panel integrator demand instability tied to further downstream supply chain volatility at OEM and IDM levels, experienced within the semiconductor industry during the half-year.

Gross profit (loss) for the half year of ($0.6) million decreased 112% from prior corresponding period (2021 1H: 4.76 million). The impact to Gross profit (loss) was driven by lower volumes of sales and reduced overhead absorption, supply chain inflation, and non-cash items. Inflationary pressure continues to impact the COGS, with cost increases affecting semi-grade metal as well as sub-systems such as isolators, pressure transducers and piezo assemblies. Markup on semiconductor chip components remain the most impactful element of the pressure on Gross Margin, particularly with isolator chips which are also commonly used within automotive electronics.

Industry leading lead times have begun to open up opportunities for market share gain as both OEMs and IDMs are seeing revenue delays (deferred revenue) due to process tool or gas panel shortages. Pivotal's industry leading lead times offer a potential solution to both OEMs and IDMs in this regard.

The Company's China and Korea based Contract Manufacturers (CMs) continue to operate to a capacity of 4,000 units per month based on a 5-day, 2 shift production.

Total operating expenses for the period were $9.2 million (2021 1H: $7.0 million), the increase is explained by $1.8 million additional general and administrative expenses due to salaries, outside services such as legal fees, IT consulting, accounting-related expenses, and million bad debt expense. As a result, loss from operations is $7.4 million higher than prior period (2021 1H $2.3 million). The Company continued to invest in research and development, with expenditures of $3.2 million flat to the prior comparative period.

The Company will continue working on reducing operating expenses without significantly affecting its ability to innovate and compete in the market.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Supply Chain

The pandemic kickstarted the supply chain shortage in the global semiconductor industry, and its extended effects such as new virus outbreaks, labor challenges and geopolitical uncertainties, have fueled it. In 2022, each link of the global supply chain continues to be disrupted, and there are few signs of recovery in the near term. The pandemic also prompted a snap back in growth and demand that was remarkable and unpredictable, causing supply chains to struggle until demand declines to a manageable level and/or capacity and component supply issues are resolved. Commodities initially saw demand drop precipitously with the onset of COVID-19 and the shutdown of factories, but since then, consumer spending has created a V-shaped recovery of the global economy and triggered an unprecedented demand for semiconductors. Now, manufacturers including Pivotal face chip/components shortages, increased lead times from analog suppliers and material price increases. Risk has been elevated all along the semiconductor supply chain.

The company has successfully managed upstream supply challenges, mainly attributable to the global shortage of semiconductor chips used in the manufacture of printed circuit board assemblies, used in Pivotal GFCs. Management remains cautious and vigilant for expected challenges procuring these components throughout the remainder of 2022. Currently, pandemic issues are still impacting the industry generally in East Asia.

Pivotal continues taking steps to manage the impacts of the dynamic supply chain bottlenecks to preserve product availability so that we can provide our customers with lead times at the pre-pandemic level. Upstream alignment remains rigorous to ensure metal, Printed Circuit Board Assembly (PCBA), and critical parts are staged and available to fulfill demand.

During the second quarter of 2022, qualification efforts continued for a second source of the most critical IC components. Pivotal has managed to stay ahead of this industry-wide challenge, and we continue to make every effort to maintain viable supply channels with second source subsystem assembly in Thailand, Malaysia, Singapore, Taiwan, and China.

LIQUIDITY AND GOING CONCERN

Since inception, the Company has generated recurring losses which has resulted in an accumulated deficit of $121.6 million as of June 30, 2022. Further, during the six months ended June 30, 2022, the Company had negative operating cash flows of $7.1 million and experienced declining revenues. In order to fund planned operations, the Company may need to secure additional debt or equity financing. These plans for additional financing are intended to mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern, however as the plans are outside of Management's control, the Company cannot ensure they will be effectively implemented. As a result, substantial doubt exists about the Company's ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are available to be issued. Failure to secure additional funding may require the Company to modify, delay, or abandon some or all of its planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on the Company's business, operating results, financial condition, and ability to achieve its intended business objectives.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, assuming the Company will continue as a going concern and do not include adjustments that might result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course.

DIVIDENDS

No dividends were paid or declared during the half-year ended 30 June 2022 and the Company does not intend to pay any dividends for the half-year ended 30 June 2022 (2021: $Nil).

Directors' Report

PRESENTATION CURRENCY

The functional and presentation currency of the Group is United States Dollars (US Dollars). The financial report is presented in US Dollars with all references to dollars, cents or $'s in these financial statements presented in US currency, unless otherwise stated.

ROUNDING OF AMOUNTS

Unless otherwise stated, amounts in this report have been rounded to the nearest thousand United States Dollars.

JURISDICTION OF INCORPORATION

The Company is incorporated in the State of Delaware, United States of America and is a registered foreign entity in Australia. As a foreign company registered in Australia, the Company is subject to different reporting and regulatory regimes than Australian companies.

DELAWARE LAW, CERTIFICATE OF INCORPORATION AND BYLAWS

As a foreign company registered in Australia, the Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (including substantial shareholdings and takeovers). Under the provisions of Delaware General Corporation Law ("DGCL"), shares are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's certificate of incorporation or bylaws, or by an agreement signed with the holders of the shares at issue.

The Company's amended and restated certificate of incorporation and bylaws do not impose any specific restrictions on transfer. However, provisions of the DGCL, the Company's Certificate of Incorporation and the Company's Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover), a proxy contest or otherwise, or to remove incumbent officers and Directors of the Company.

These provisions could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board.

The Company believes that the benefits of increased protection of its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

The Company has evaluated subsequent events for financial statement purposes occurring through August 30, 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.

Directors' Report

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group's core growth strategy involves continuing its strong customer-driven product development focus in order to continue to increase the market share. The Group's growth strategy also includes:

1. Expanding the product portfolio which in turn increases the total addressable market size; and
2. Expanding relationships with key technology and industry partners in order to improve our product offering and delivery capabilities.

On behalf of the directors,

John Hoffman
Executive Chairman

30 August 2022 (Fremont PST), 31 August 2022 (Sydney AEST)

PIVOTAL SYSTEMS CORPORATION

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

	December 31, 2021	June 30, 2022
Assets		
Current assets:		
Cash	$ 3,988	$ 6,243
Trade accounts receivable	9,008	5,977
Inventories	6,857	6,073
Prepaid expenses	332	177
Other current assets	127	216
Total current assets	20,312	18,686
Property, plant and equipment, net	336	251
Right of use assets, net	697	561
Other assets	558	403
Total assets	$ 21,903	$ 19,901
Liabilities, Redeemable Preferred Stock and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 3,770	$ 1,830
Accrued expenses	880	1,048
Current portion of long-term debt	808	319
Current portion of operating lease liabilities	294	310
Other current liabilities	276	259
Total current liabilities	6,028	3,766
Long term debt, less current portion	—	500
Operating lease liabilities, less current portion	473	315
Other liabilities	253	227
Total liabilities	$ 6,754	$ 4,808
Commitments and contingencies (Note 7)		
Redeemable preferred stock, par value $0.00001 per share, 13,000 shares authorized as of December 31, 2021 and June 30, 2022, 11,528 and 11,122 shares outstanding as of December 31, 2021 and June 30, 2022; aggregate liquidation preference of $14,260 and $15,933 as of December 31, 2021 and June 30, 2022	11,319	10,913
Stockholders' equity:		
Common stock, $0.00001 par value; 250,000,000 shares authorized as of December 31, 2021 and June 30, 2022; 128,546,316 and 159,466,250 shares issued and outstanding as of December 31, 2021 and June 30, 2022	1	1
Common prime stock, $0.00001 par value; 120,000,000 shares authorized as of December 31, 2021 and June 30, 2022; no shares issued and outstanding as of December 31, 2021 and June 30, 2022	—	—
Additional paid-in capital	115,630	125,819
Accumulated deficit	(111,801)	(121,640)
Total stockholders' equity	3,830	4,180
Total liabilities, redeemable preferred stock and stockholders' equity	$ 21,903	$ 19,901

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

PIVOTAL SYSTEMS CORPORATION

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

	Six-Month Period Ended	
	June 30, 2021	June 30, 2022
Net product revenue	$ 13,598	$ 8,342
Service revenue	347	680
Total net revenue	13,945	9,022
Cost of goods sold	8,935	9,191
Cost of service revenue	254	392
Total costs of goods and services revenue	9,189	9,583
Gross profit (loss)	4,756	(561)
Operating expenses:		
Research and development	3,206	3,220
Selling, general and administrative	3,806	5,950
Total operating expenses	7,012	9,170
Loss from operations	(2,256)	(9,731)
Other (expense) income:		
Interest expense	(67)	(33)
Foreign currency transaction loss	(7)	(28)
Gain on forgiveness of PPP loan	906	—
Other income (expense), net	16	(1)
Interest and other income, net	848	(62)
Loss before provision for income taxes	(1,408)	(9,793)
Provision for income taxes	37	46
Net loss	$ (1,445)	$ (9,839)
Less deemed dividend to redeemable preferred stockholders	(200)	(203)
Net loss attributable to common stockholders, basic and diluted	$ (1,645)	$ (10,042)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.01)	$ (0.07)
Weighted average common shares outstanding	120,376,046	150,667,126

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

PIVOTAL SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(Unaudited)
(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, 2020	10,000	$ 9,795	120,240,769	$ 1	$ 108,241	$ (104,922)	$ 3,320
Proceeds from the sale of redeemable preferred shares, net of issuance costs of $4	3,000	2,996	—	—	—	—	—
Issuance of common stock upon stock options exercise	—	—	736,880	—	190	—	190
Redeemable preferred stock redemptions	(802)	(802)	—	—	(200)	—	(200)
Stock-based compensation	—	—	—	—	475	—	475
Net loss	—	—	—	—	—	(1,445)	(1,445)
Balance at June 30, 2021	12,198	$ 11,989	120,977,649	$ 1	$ 108,706	$(106,367)	$ 2,340

	Redeemable Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Par Value			
Balance at December 31, 2021	11,528	$ 11,319	128,546,316	$ 1	$ 115,630	$ (111,801)	$ 3,830
Issuance of common stock upon stock options exercise	—	—	602,407	—	113	—	113
Issuance of shares upon institutional placement, net of issuance costs of $703	—	—	30,317,527	—	9,911	—	9,911
Redeemable preferred stock redemptions	(406)	(406)	—	—	(203)	—	(203)
Stock-based compensation	—	—	—	—	368	—	368
Net loss	—	—	—	—	—	(9,839)	(9,839)
Balance at June 30, 2022	11,122	$ 10,913	159,466,250	$ 1	$ 125,819	$ (121,640)	$ 4,180

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

PIVOTAL SYSTEMS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Month Period Ended June 30, 2021	Six Month Period Ended June 30, 2022
Cash Flows from Operating Activities		
Net loss	$ (1,445)	$ (9,839)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	224	117
Non-cash lease expense	126	136
Stock-based compensation	475	368
Gain on forgiveness of PPP loan	(906)	—
Recognition of deferred gain on sale of assets	—	(11)
Changes in operating assets and liabilities:		
Trade accounts receivable	724	3,031
Inventories	(73)	784
Prepaid expenses	186	155
Other current assets	(236)	(89)
Other assets	—	155
Trade accounts payable	(404)	(1,940)
Accrued expenses	(1,305)	168
Other current liabilities	(545)	(32)
Operating lease liabilities	(128)	(142)
Net cash used in operating activities	(3,307)	(7,139)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(60)	(21)
Net cash used in investing activities	(60)	(21)
Cash Flows from Financing Activities		
Proceeds from borrowings on long-term – debt	—	500
Repayments of borrowings of long-term – debt	(500)	(500)
Proceeds from the exercise of stock options	190	113
Proceeds from issuance of preferred stock, net of issuance costs	2,996	—
Proceeds from the issuance of common stock, net of issuance costs	—	9,911
Payments on redemption of preferred stock	(1,002)	(609)
Payment of deferred offering costs	(308)	—
Net cash provided by financing activities	1,376	9,415
Net (decrease) increase in cash	(1,991)	2,255
Cash at beginning of period	7,539	3,988
Cash at end of period	$ 5,548	$ 6,243
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 37	$ 46
Cash paid for interest	$ 56	$ 20
Non-cash investing and financing activities:		
Purchases of property, plant, and equipment in accounts payable	$ 10	$ —
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 condensed consolidated financial statements.

PIVOTAL SYSTEMS CORPORATION

NOTES TO CONDENSED 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 pandemic also kickstarted the supply chain shortage in the global semiconductors industry, and its extended effects such as new virus outbreaks, labor challenges and geopolitical uncertainties, have fueled it. In 2022, the global supply chain continues to be disrupted, and there are few signs of recovery in the near term. The pandemic also prompted growth and demand that was unpredictable, causing supply chains to struggle until demand declines to a manageable level and/or capacity and component supply issues are resolved. The supply chain constraints and consumer demand has impacted the availability of semiconductors. Now, the Company faces chip/components shortages, increased lead times from analog suppliers and price increases.

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 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 gas 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.

Liquidity and Going Concern

Since inception, the Company has generated recurring losses which has resulted in an accumulated deficit of $121.6 million as of June 30, 2022. Further, during the six months ended June 30, 2022, the Company had negative operating cash flows of $7.1 million and experienced declining revenues. In order to fund planned operations, the Company may need to secure additional debt or equity financing. These plans for additional financing are intended to mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern, however as the plans are outside of Management's control, the Company cannot ensure they will be effectively implemented. As a result, substantial doubt exists about the Company's ability to continue as a going concern within one year after the date that the condensed consolidated financial statements are available to be issued. Failure to secure additional funding may require the Company to modify, delay, or abandon some or all of its planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on the Company's business, operating results, financial condition, and ability to achieve its intended business objectives.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, assuming the Company will continue as a going concern and do not include adjustments that might result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course.

2. Summary of Significant Accounting Policies

Basis of presentation and consolidation

The accompanying condensed 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 condensed 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 condensed 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 condensed 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.

The geographic location of the Company's long-lived asset, net, based on physical location of the assets, as of December 31,2021 and June 30, 2022 were as follows (in thousands):

	December 31, 2021	June 30, 2022
United States	$ 293	$ 251
South Korea	43	—
Total property, plant and equipment, net	$ 336	$ 251

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying interim condensed consolidated balance sheet as of June 30, 2022, the interim condensed consolidated statements of operations, condensed consolidated statements of redeemable preferred stock and stockholders' equity for the six months ended June 30, 2021 and 2022, and condensed consolidated statements of cash flows for the six months ended June 30, 2021 and 2022, and amounts relating to the interim periods included in the accompanying notes to the interim condensed consolidated financial statements are unaudited. The unaudited interim financial statements have been prepared in accordance with U.S. GAAP, and in management's opinion, includes all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the Company's condensed consolidated balance sheet as of June 30, 2022, and its results of operations for the six months ended June 30, 2021 and 2022, and cash flows for the six months ended June 30, 2021 and 2022. The results for the six months ended June 30, 2022 are not necessarily indicative of the results expected for the fiscal year or any other periods. These interim financial statements should be read in conjunction with the Company's consolidated financial statements and related notes for the fiscal year ended December 31, 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 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.

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.

Impact of Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB'') FASB issued Accounting Standards Update ("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. The standard will be effective for the Company beginning January 1, 2023, with early application permitted. The Company is evaluating the impact of adopting this new accounting guidance on its financial statements.

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 six months ended June 30, 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 (in thousands):

	Six Month Period Ended June 30,	
	2021	2022
Customer type:		
Integrated device manufacturer (IDM)	$ 1,320	$ 1,761
Original equipment manufacturer (OEM)	12,625	7,261
Total net revenue	$ 13,945	$ 9,022

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. 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 agreement was amended on September 27, 2021, extending the maturity date of the revolving credit line to September 27, 2023. 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, 2021 there were no borrowings under the line of credit, as of June 30, 2022 there were $500,000 in borrowings under the line of credit. As of June 30, 2022, the amount available under the revolving credit line is $1.8. million.

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. The Company may prepay all, but not less than all of the term loan. On September 3, 2019, the Company drew $3.0 million on the term loan. As of December 31, 2021 and June 30, 2022, the outstanding balance was $750,000 and $250,000, respectively. As of December 31, 2021 and June 30, 2022, 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 initial financial covenants of the borrowing facilities require an adjusted current ratio of at least 1.2:1.00, including liquidity, for which the Company must maintain unrestricted cash and cash equivalents with the lender of not less than $2.0 million at any time.

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 stated 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 agreement was amended on August 20, 2021 (2nd amendment) and September 27, 2021 (3rd amendment). These amendments extended only to the revolving line of credit. The 2nd amendment extended the term of the agreement by 30 days to September 26, 2021. The 3rd amendment extended the revolving line of credit maturity date to September 27, 2023, and reduced the liquidity requirement to $500,000 from $2,000,000, for the remaining 2 year term. These amendments were accounted for as modifications.

As of December 31, 2021 and June 30, 2022, the Company was in compliance with the financial covenants of its borrowing facilities.

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 were 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 loan was forgiven in January 2021, resulting in a gain on loan forgiveness of $0.9 million, which was recorded within gain on forgiveness of PPP loan on the condensed consolidated statement of operations.

5. Leases

The Company's operating lease liabilities as of December 31, 2021 and June 30, 2022 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 six months ended June 30, 2021 and June 30, 2022 were as follows (in thousands):

	2021	2022
Operating lease costs	$ 157	$ 161

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

	December 31, 2021	June 30, 2022
Weighted average remaining lease term (in months)	28	22
Weighted average discount rate	7.5%	7.5%

Future minimum payments on operating lease liabilities as of June 30, 2022, are as follows (in thousands):

Year Ending December 31,	
Remainder of 2022	$ 172
2023	350
2024	148
Total minimum lease payments	670
Less: Imputed interest	(45)
Total	$ 625

6. 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 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, 2021, or June 30, 2022.

Purchase Commitments

The Company has current third-party purchase obligations for supplies and manufacturing services with two vendors. The minimum purchase obligations expire by February 2025. The Company made third-party purchases under the commitments totaling $7.3 million and $4.5 million during the six months ended June 30, 2021 and 2022, respectively. The estimated annual minimum purchase commitments with the suppliers were as follows (in thousands):

Year Ending December 31,	
Remainder of 2022	$ 1,715
2023	2,117
2024	2,000
2025	250
Total	$ 4,367

7. Redeemable Preferred Stock

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.

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. The calculation does not include fractional year increases.

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). 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% or 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. After the first redemption is made, the Company is no longer required to make these deposits or maintain the related bank account. 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.

During the six month period ended June 30, 2021, the Company redeemed 802 redeemable preferred shares at $1,250 per share for a total of $1.0 million. During the six month period ended June 30, 2022, the Company redeemed 406 redeemable preferred shares at $1,500 per share for a total of $609,000. 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. During the six month period ended June 30, 2021, the Company recorded deemed dividends in the amount of $200,000. During the six month period ended June 30, 2022, the Company recorded deemed dividends in the amount of $203,000. The Company has adjusted its net loss per share computation to reflect the value given to redeemable preferred stockholders by the Company (See Note 8).

8. 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):

	2021	2022
Net loss	$ (1,445)	$ (9,839)
Less: Deemed dividend to redeemable preferred stockholders	(200)	(203)
Net loss attributable to common stockholders	(1,645)	(10,042)
Weighted average basic and diluted common share	120,376,046	150,667,126
Net loss per share attributable to common stockholders – basic and diluted	$ (0.01)	$ (0.07)

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 issued and outstanding stock options which are antidilutive. It also excludes the impact of redeemable preferred stock, as they are not convertible into common stock.

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 June 30,	
	2021	2022
Common stock options issued and outstanding	16,527,695	16,340,631
	16,527,695	16,340,631

9. 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 and all the unexercised options expired in January 2021.

The 2012 Equity Incentive Plan (the “2012 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 26,965,000 shares of common stock as of December 31, 2021. The 2012 Plan expired on May 18, 2022. There are 15,340,631 unexercised options under the 2012 Plan as of June 30, 2022.

The 2022 Equity Incentive Plan (the “2022 Plan”) adopted on April 25, 2022, authorizes the Company to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 12,000,000 shares of common stock as of June 30, 2022, including the remaining 1,697,428 reserved shares not issued under the expired 2012 plan, and 10,302,572 new shares authorized under the 2022 Plan. 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 six months ended June 30, 2021 and June 30, 2022:

	2021	2022
Expected volatility	66.3% – 67.3%	59.1% – 65.0%
Risk-free interest rate	0.59% – 0.68%	1.17 % – 2.86%
Expected dividend	—%	—%
Expected term (in years)	4 years	1 - 4 years
ASX market price	$1.00 – $1.16	$0.25 – $0.63

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 period 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, 2021	16,548,497	$ 0.60	$ 0.24	5.86
Granted	1,168,500	0.30	$ 0.05	
Exercised	(602,407)	(0.19)		
Forfeited	(773,959)	(0.86)		
Outstanding – June 30, 2022	16,340,631	$ 0.58	$ 0.23	5.72

As of June 30, 2022, 11,643,616 options had vested. As of December 31, 2021 and June 30, 2022, the intrinsic value of options outstanding was $3.5 million and $5,125, respectively. During the six months ended June 30, 2021 and 2022, the intrinsic value of options exercised was $0.9 million and $0.1 million, respectively. As of June 30, 2022, the aggregate intrinsic value of options vested and expected to vest was $5,125, and the aggregate intrinsic value of options exercisable was $5,125. As of December 31, 2021 and June 30, 2022, the fair value of shares vested was $2.0 million.

As of June 30, 2022, there was $1.2 million of compensation costs related to non-vested awards granted under the Company's equity incentive plans not yet recognized in the financial statements. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.5 years.

The Company recorded stock-based compensation expense in the following expense categories of its condensed consolidated statements of operations during the periods ended June 30, 2021 and 2022 (in thousands):

	2021	2022
Cost of goods sold	$ 42	$ 18
Research and development	164	78
Selling, general and administrative	269	272
Total stock-based compensation	$ 475	$ 368

Employee Stock Purchase Plan

During the six months ended June 30, 2022, the Company's board of directors and stockholders approved the Company's 2022 Employee Stock Purchase Plan, which, subject to the terms of the plan, allows eligible employees with an opportunity to purchase shares of the Company's common stock (or CDIs) at a maximum of a 15% discount to the fair market value of such shares. The employee stock purchase plan provides for the grant of offers to purchase shares (or CDIs) at any time during offering periods prescribed by the committee designated to administer the 2022 Stock Plan. Offering periods may continue up to 27 months and may consist of one or more purchase periods. The terms of the offerings will be set forth in an offering document. During the six months ended June 30, 2022, there was no activity under the plan.

10. Income Taxes

The Company did not record a provision or benefit for United States federal or state income taxes during the six months ended June 30, 2021 and 2022. The Company continues to maintain a full valuation allowance for its net U.S. federal and state deferred tax assets. For the six months ended June 30, 2021 and 2022, the Company's income tax expense was $37,000 and $46,000, respectively related to foreign income. The Company's income tax expense for the six months ended June 30, 2021 and 2022 is due primarily to income taxes in foreign jurisdictions.

The PPP loan forgiveness recognized during the six months ended June 30, 2021 is excluded from taxable income under Section 1106(i) of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

11. Related Party Transactions

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 7).

As discussed in Note 7, the Company made redemption payments to redeemable preferred stockholders. The Company recorded $200,000 and $203,000 as deemed dividends in connection with the redemption premium paid to Anzu RBI during the periods ended June 30, 2021 and June 30, 2022, respectively.

On February 3, 2022, the Company entered into an underwritten rights offering of 30,317,527 CDIs to raise maximum gross proceeds of approximately $10.6 million. One CDI represents one share of common stock. As a result of this offering, on February 15, 2022, the Company issued 16,410,646 CDIs, and on February 28, 2022 the Company issued 13,906,881CDIs and raised $9.9 million, net of $0.7 million issuance costs. The proceeds received included $3.9 million and $3.7 million from Viburnum Funds and Anzu Partners, LLC, respectively.

Potential bonuses may be paid to members of the senior leadership team selected by the Remuneration and Nomination Committee ("Committee") subject to satisfaction of various performance hurdles, including: (i) the Company achieving certain EBITDA targets for each of fiscal year 2020 to fiscal year 2022; (ii) the Company achieving a market capitalization and share price target at the end of fiscal year 2022; and (iii) the Company closing a change of control transaction at or above the target share price. Determination of the satisfaction of the fiscal year 2022 performance hurdles will be made by the Committee in the first quarter of fiscal year 2023 unless a change of control event occurs on an earlier date. The maximum bonus pool payable under the Long Term Incentive Program (LTIP) is $10 million, with 60% of the actual bonus pool payable to the Chief Executive Officer, the Chief Technical Officer, and other members of the senior leadership team selected by the Committee. LTIP Bonuses earned as of June 30, 2021 and 2022 were Nil.

12. Subsequent Events

The Company has evaluated subsequent events for financial statement purposes occurring through August 30, 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.

Directors Declaration

In accordance with a resolution of the directors of Pivotal Systems Corporation, the directors of the Company declare that:

1. The interim financial statements and notes thereto, comply with accounting principles generally accepted in the United States (U.S. GAAP);

2. The interim financial statements and notes thereto, give a true and fair view of the Group's financial position as at 30 June 2022 and of the performance for the half-year ended on that date; and

3. In the directors' opinion there are reasonable grounds to believe that Pivotal Systems Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the directors

Kevin Hill
Chief Executive Officer

Ronald Warrington
Chief Financial Officer

30 August 2022 (Fremont PDT), 31 August 2022 (Sydney AEST)

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Independent Auditor's Review Report

Board of Directors
Pivotal Systems Corporation
Fremont, California

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of Pivotal Systems Corporation and subsidiaries (the Company), which comprise the condensed consolidated balance sheet as of June 30, 2022, and the related condensed consolidated statements of operations, redeemable preferred stock and stockholders' equity, and cash flows for the six-month periods ended June 30, 2022 and 2021, and the related notes (collectively referred to as the interim financial information).

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying interim financial information have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the interim financial information, the Company has suffered recurring losses from operations and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

Report on Condensed Consolidated Balance Sheet as of December 31, 2021

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2021, and the related consolidated statements of operations, redeemable preferred stock and stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 30, 2022. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

BDO USA, LLP

San Francisco, California
August 30, 2022