PIVOTAL

SYSTEMS

A DELAWARE CORPORATION

ARBN: 626 346 325

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Corporate Directory

Corporate Directory

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

Website: www.pivotalsys.com

Directors

John Hoffman	Executive Chairman and Chief Executive Officer
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
David Michael	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
Jason Korman	Non-Executive Director (appointed 6 December 2021)

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
Fenwick & West LLP
801 California Street
Mountain View, California 94041 USA

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

Share Registry

Link Market Services
Level 12, 680 George Street
Sydney, NSW 2000 Australia
Telephone: +61 1300 554 474
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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.

Chairman's Letter

Dear Fellow Shareholders,

On behalf of the Board of Directors, I am pleased to present our Annual Report for the year ended 31 December 2021, which was yet another record year of revenues for the Company.

The 2021 calendar year marked a second consecutive year of very strong growth for the global semiconductor industry, with semiconductor equipment sales forecast to have grown by 44% to approximately $88 billion in the 2021 calendar year. Towards the latter end of the year, we saw some supply bottlenecks that hampered equipment manufacturers (OEMs) ability to meet demand from end customers, notably the Integrated Device Manufacturers (IDMs).

The continuing COVID-19 pandemic has shown the resilience of the semiconductor industry and has in fact accelerated the digital transformation of technologies across the globe, which has led to increasing demand in 2021.

During the year some of our customer highlights included:

- Signed Two Memorandum of Understandings (MOUs) with South 8 Technologies and Forge Nano
- Completed a $1 million Non-Recurring Engineering or NRE agreement with a Leading Japanese OEM
- Establishment of Scientific Advisory Board and Appointment of Professor Stacey Bent
- Multiple repeat orders for the standard GFC with the market share leader in ALD
- Standard GFC for etch applications continued qualification with a leading Japanese OEM.

In 2021, Pivotal reaped the benefits of its new contract manufacturer (CM) in Korea and the Company established Transformation Center recorded a full year contribution to Pivotal's operating results. and commenced product shipment of all released Pivotal products. Pivotal was able to maintain all manufacturing activity in China, Korea, and the United States during the reported period. Despite COVID-19 and the emergence of component supply shortages in the second half, we successfully navigated through with our exceptionally talented operations team.

We continued to diversify our customer base within all major regions to include Japan, Europe, Taiwan, China, North America, and Korea. The number of repeat/qualified customers increased by 12.5% versus 2020 to 45. The total number of new customers evaluating Pivotal's GFCs stood at 5 at years end. The Company generated sales to all major OEMs in 2021 and has strategic development programs ongoing with two OEMs, both of which made excellent progress during the year, with the Company collecting milestone payments attributable to one of these agreements.

In July, we were pleased to strengthen our balance sheet during the year ahead of expected increased demand for our products, with the Company successfully closing a $6.7 million share placement (A$9.1 million) 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. In addition, Pivotal drew down on an additional $3 million Revenue Based Redeemable Preferred Stock (RBI) with Anzu on 3 June 2021. The Company ended the year with a cash position of $4.0 million with $0.8 million of debt, and a backlog of confirmed orders awaiting shipment of $3.9 million.

After the reporting date, in early February 2022 we announced an additional $10.5 million or A$14.8 million pro-rata accelerated non-renounceable entitlement offer, supported by existing major shareholders Anzu Partners and Viburnum Funds, who agreed to sub-underwrite any shortfall arising from both the Institutional and Retail Entitlement Offer.

Chairman's Letter

Consolidated revenue increased 34.4% to $29.2 million, reflecting an increase in sales due to greater demand for Pivotal's products from end customers and another significant year of growth for the global semiconductor industry despite COVID-19. Consolidated gross profit for FY21 increased 2503% to $8.9 million. Gross profit margins in 2021 of 30.4% were significantly higher than 2020. Throughout the year, the Company optimized production operations, drove overall cost reductions, and improved scalability, which continued to improve our manufacturing overhead. In addition, the Company was successful in the elimination of United States Customs and Border Protection duties from 2020 and received volume-based discounts from our CMs reflecting the strong upswing in our product volumes. The margin improvements were partially offset by expedite charges related to supply chain pressure from some commodity parts, namely printed circuit board components.

The Company anticipates further improvements in gross margins in 2022 and we will continue to work with our suppliers to gain even more savings. The Company remains on track to deliver our targeted (sustainable) gross margins of 30-35% over the longer term.

Pivotal's total operating expenses increased by 25.5% to $16.4 million in 2021, mainly due to the expense recognition of $2.1 million offering costs, due to delays around the Company's public listing in the United States, after a successful rights offering of approximately $10.5 million closed in February 2022, net of $0.6 million transaction costs. Our strong research and development capability and ability to innovate ahead of the curve enabled the Company to take advantage of new opportunities brought forward by our world class customers. Total R&D expenditure for the year was $6.5 million.

Our sales and marketing expenditures of $3.4 million, which was down 1.1% versus 2020 reflected the continued impact of COVID-19 on travel and conference attendances. However, such restrictions did not impact Pivotal's ability to engage with and meet customer expectations via virtual meetings and business development initiatives. We were delighted to join the first in-person conference at SEMICON West in December of 2021, with further in-person representation planned in 2022.

Pivotal's Operating Loss for the year was $7.5 million, an improvement of 41% versus the prior period. The Company's full-time headcount ended the year at 46, which was relatively flat versus the prior year.

In FY21, Pivotal commenced a strategic initiative to develop new market opportunities for the Company's leading edge flow technology, based on the continued success and growth of Pivotal GFCs products within the semiconductor industry, the largest of all the market for annual global demand of GFCs. Flow controllers are used in a wide range of industries including semiconductor, oil and gas, clean energy, battery production and pharmaceuticals, along with many others market segments to accurately control the flow rate of gases and liquids. The speed and precision of Pivotal's flow control technology, when coupled with the advanced diagnostics and robust software provided to customers, provide a number of advantages for potential new market applications.

In Q3 2021, the Company announced the signing of its first Memorandum of Understanding (MOU) with South 8 Technologies, which has developed a breakthrough new liquefied gas electrolyte chemistry for electrochemical energy storage devices, including lithium batteries and electrochemical capacitors. The two companies will collaborate on the design of next-generation gas flow controllers optimized for liquified gas electrolyte research and production, which is intended to underpin a long-term commercial relationship between Pivotal and South 8.

In addition, the Company signed a second MOU with Forge Nano, a company whose breakthrough ALD technology is revolutionizing materials design and creating a paradigm shift for numerous applications, including lithium-ion battery component manufacturing. Under the terms of the MOU, Pivotal and Forge Nano will explore implementation of Pivotal's advanced flow control systems into Forge Nano's powder ALD systems for high-performance next-generation lithium-ion battery materials, which Pivotal anticipates will open an entirely new and large potential market for Pivotal GFCs.

Recognizing the Company's new market vertical development programs, and continued investment into leading edge Atomic Layer Deposition (ALD) and Atomic Layer Etch (ALE) products, which are expected to outpace growth in the overall GFC market by a significant margin, Pivotal established a new Scientific Advisory Board during the year, consisting of internationally recognized experts who will bring depth of experience and leadership to the Company. Pivotal's new Advisory Board will institutionalize its approach to seeking expert, external perspectives on strategic initiatives across the Company. Pivotal's research and development efforts will leverage the scientific expertise and deep business insight from this Board of distinguished experts who have deep content knowledge on areas in which Pivotal is developing increased commercial presence. To that end, Pivotal appointed Professor Stacey F. Bent as the founding member of the Advisory Board. Professor Bent brings considerable scientific insight and expertise in the field of Atomic Layer Deposition (ALD) to assist the Company.

Looking to the broader market, leading industry group SEMI anticipates Wafer Fabrication Equipment (WFE) spending to grow 44% in 2021 to $88 billion, and a further 12% growth in 2022 to near $100 billion, driven by digital transformation and other secular technology trends. This number is expected grow by another $100 billion into the 2030s.

Further underpinning the growth trajectory of WFE, has been a significant increase in government initiatives to drive domestic manufacturing and tech sovereignty. This includes major initiatives in Korea, China, Japan, the European Union (EU) and the United States. For example, in February 2022 the United States House of Representatives passed the America COMPETES Act of 2022 including robust funding for the CHIPS Act programs representing $52 billion in grants to subsidize semiconductor manufacturing. Since the beginning of 2021, the semiconductor industry has announced nearly $80 billion in new investments in the United States through 2025.

In addition, the EU "CHIPS" Act has been proposed to mobilize more than 43 billion euros of public and private investments and set measures to prevent, prepare, anticipate and swiftly respond to any future supply chains disruption, together with Member States and international partners.

The pace of digital transformation brought on by the COVID-19 pandemic and the resultant and seismic increase in demand for semiconductor chips, which positively impacts equipment manufacturers as new fabrication plants are built and tools installed. For Pivotal, we continue to believe in the long term durability of the current up cycle in semi, which will see increased demand for Pivotal's products and services moving forward. When these organic aspects are overlaid with new government spending initiatives which constitute several hundred billion dollars of potential spend in Korea, Japan, the United States and Europe to secure or expand domestic manufacturing capacity, the future looks very bright indeed for our business.

Pivotal is therefore uniquely placed with industry leading technology and products to capitalize on the overall growth in the market in subsequent periods.

We continue to execute our group corporate strategy to take market share at the leading edge and strong growth will follow. We again made solid progress in achieving this goal during 2021 and expect our market share to continue to grow in 2022 as customers design and qualify Pivotal's GFCs into new semiconductor capital equipment. We are particularly excited by our potential growth opportunities in Japan as our GFCs achieve qualifications at the leading Japanese OEM and we continue to expand our new product development initiatives at the leading edge in Japan and other major markets.

The Company is well-positioned to capitalize on the expected strong growth in demand for our products and services once more in 2022 and the sustained industry ramp, with our current manufacturing capacity now sitting at 40,000 units annually.

From a governance perspective, we were pleased to announce the appointment of Jason Korman to the Pivotal Board of Directors in November 2021. Jason's wide ranging financial acumen and proven transactional execution will be important as Pivotal seeks new growth opportunities in attractive market verticals and our business is appropriately structured to meet the heightened level of demand for Pivotal's innovative gas flow controllers as the semiconductor equipment market undergoes a period of sustained high growth. Jason has over 10 years' experience in private equity and investment management across Australia, Singapore and the USA at BGH Capital, Argand Partners and CHAMP Private Equity.

On behalf of our Board of Directors, I would like to thank the Pivotal team around the world who have worked diligently to achieve the growth and numerous development milestones we delivered in 2021 against the continued backdrop of COVID-19 and the effects of the recovery on global supply chains generally. I would also like to thank our shareholders for their continued support of the Company as we continue to make sizeable inroads in building our business for long term growth.

Sincerely,

John Hoffman
Executive Chairman and Chief Executive Officer
Pivotal Systems Corporation

30 March 2022 (PT) / 31 March 2022 (AEDT)

Director’s Report

The directors present their report for Pivotal Systems Corporation (“Pivotal” or “Company”) together with the financial statements on the Consolidated Entity (referred to hereafter as the “Consolidated Entity” or “Group”) consisting of the Company and its subsidiaries for the financial year ended 31 December 2021 and the auditor’s 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 and Chief Executive Officer
Dr. Joseph Monkowski	Executive Director and Chief Technical Officer
Ryan Benton	Independent Non-Executive Director
Kevin Landis	Non-Executive Director
David Michael	Non-Executive Director
Peter McGregor	Independent Non-Executive Director
Jason Korman	Non-Executive Director (appointed 6 December 2021)

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.

In Q2 2020, Pivotal qualified a new CM, H.S. Inc. in Korea for Transformation and in late July 2020 restarted all Transformation activities back in Korea.

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 full year revenue of $29.2M (2020: $21.8M) which represents a 34.4% increase driven by strong demand from existing OEM and IDM customers. Gross profit expanded significantly to 30.4% of revenues (2020: 1.6%).

Operating expenses for the period were $16.4M (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 $7.5M (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 one of the leading Japanese 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 $8 billion by 2024.

This is the second NRE Agreement with this 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 for 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.

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 $111.8 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 subsequent to year-end (see Note 19), 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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Events surrounding the continuing COVID-19 pandemic have resulted in a reduction in economic activity across the world. The severity and duration of these economic repercussions are still largely unknown and ultimately will depend on many factors, including the speed and effectiveness of the containment efforts throughout the globe. The Company has observed demand increases in some areas of our business that support the stay-at-home economy, such as products used in data center infrastructure, notebook computers, 5G, Industry 4.0 and IOT. SEMI continues to upgrade expectations on growth in semiconductor WFE, with its 2021 industry forecast, which is anticipated to exhibit growth of 44% in 2021 to $90 billion, and further 8% growth in 2022 to near $100 billion, driven by digital transformation and other secular technology trends

The extent to which COVID-19 will impact demand for our products depends on future developments, which are highly uncertain and very difficult to predict, including new information that may emerge concerning the severity of the coronavirus and actions to contain and treat its impacts. While our sites are currently operational, our facilities could be required to temporarily curtail production levels or temporarily cease operations based on future additional government mandates.

From the start of the COVID-19 outbreak, the Company proactively implemented preventative protocols intended to safeguard our team members, contractors, suppliers, customers, distributors, and communities, and ensure business continuity in the event government restrictions or severe outbreaks impact our operations at certain sites. Pivotal remains committed to the health and safety of our team members, contractors, suppliers, customers, distributors, and communities, and government policies and recommendations designed to slow the spread of COVID-19.

There were no other significant changes in the state of affairs of the Group during the financial year.

DIVIDENDS

No dividends were paid or declared during the year ended 31 December 2021 and the Company does not intend to pay any dividends for the year ended 31 December 2022 (2021: $Nil).

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.

Also refer to section 15 of the Additional Shareholder Information section of this Annual Report for further specific details on restrictions to registration of transfers in the Company’s Bylaws.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On February 3, 2022, the Company announced an underwritten rights offering of 30,317,527 CDIs to raise maximum gross proceeds of $10.5 million. One CDI represents one share of common stock. The offer was available to eligible institutional investors and accredited investors who were 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 were available to retail investors. The retail offering closed on February 21, 2022, with a total of 564,799 CDIs applied to eligible retail shareholders. The shortfall of CDIs not taken up by existing shareholders was allocated to the sub-underwriters of the offering, including existing significant shareholders, Anzu Partners and Viburnum Funds. A total of 13,906,881 CDIs were issued to retail shareholders and sub-underwriters on February 28, 2022.

During January and February 2022, 167,500 stock options were granted pursuant to the Company's equity incentive plan.

The Company has evaluated subsequent events for financial statement purposes occurring through March 30, 2022, the date the financial statements were available to be issued, and determined that no additional subsequent events had occurred that would require recognition in these financial statements.

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. Establishing relationships with key technology and industry partners in order to improve our product offering and delivery capabilities.

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under United States of America legislation. The Group is committed to the sustainable management of environmental, health, and safety (EHS) concerns as a core business principle. This includes ensuring compliance with all applicable government standards and regulations and providing a safe and healthy workplace, while reducing our environmental footprint. We integrate health, safety, and environmental considerations into all aspects of our business, including product design and services, to provide productive and responsible solutions by:

- Striving for zero accidents through the application of an EHS Management System.
- Implementing pollution prevention control strategies.
- Committing to continual improvement for our customers, Company, and Group's personnel.

The Board of Directors considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

CORPORATE GOVERNANCE

During FY21, the Company, as a Delaware incorporated corporation, sought to achieve substantive compliance with the governance recommendations set out in the 'Corporate Governance Principles and Recommendations 4th Edition', published by the ASX Corporate Governance Council (the ASX Principles). The Company's Corporate Governance Statement can be viewed at http://www.pivotalsys.com/investors. The Corporate Governance Statement sets out the extent to which Pivotal has followed the ASX Corporate Governance Council's Recommendations during the year ended 31 December 2021.

SHARE OPTIONS

Options to acquire shares of Common Stock in the Company were granted during the financial year. The number of options outstanding as at the date of this report, and all other movements in share options, are disclosed in Note 16 to the financial statements.

SECURITIES ON ISSUE

The Company had the following securities on issue as at 31 December 2021:

	Common Stock	Preferred Stock
Shares of common stock[1]	128,546,316	-
Shares of preferred stock (i.e. RBI Preferred Stock)	-	11,528
Options over shares of common stock	16,548,497	-

INFORMATION ON DIRECTORS

John Hoffman **Executive Chairman and Chief Executive Officer**

John Hoffman has over 30 years of global high technology management experience building growth organizations in both the semiconductor and information technology markets.

Prior to joining Pivotal Systems, John was a Senior VP with Spencer Trask Ventures, a New York based venture capital firm. While at Spencer Trask, John was primarily involved in the solar and integrated circuit efforts of the firm. Prior to Spencer Trask, John was the Chief Executive Officer of RagingWire Enterprise Solutions, an Inc 500 fastest growing private company. John reorganized the company and enabled record growth in revenue and profitability during his tenure. Prior to RagingWire, John worked in various general manager roles at Applied Materials for 18 years. He was the President of the billion dollar "Etch Product Business Group", VP and GM of the Process Control and Diagnostic Business Group and the General Manager of the Customer Service Division which grew by over 300% during his tenure.

Special responsibilities: Chairman of the Board

Other directorships: None

Dr. Joseph Monkowski **Executive Director and Chief Technical Officer**

Joseph Monkowski has extensive experience in the semiconductor industry focused on providing process equipment and metrology solutions for next generation device manufacturing.

Prior to joining Pivotal, Joseph was the SVP of Business Development for Advanced Energy Industries, where he led the company's M&A strategy to expand its product portfolio and position the company as a market leader in the semiconductor subsystems space. Previously, he held senior executive positions at Pacific Scientific, Photon Dynamics and Lam Research, where he served as EVP and CTO. During his career, Monkowski led efforts to design and build a number of leading CVD and plasma etch systems, winning the R&D 100 award and multiple Semiconductor International Best Product awards. He has authored numerous patents and publications.

Special responsibilities: None

Other directorships: None

[1] Shares of Common Stock are equivalent to 128,546,316 CHESS Depositary Interests.

Ryan Benton **Independent Non-Executive Director**

Ryan joined the Board in 2015 bringing over 25 years of finance, operations, and transaction experience. Ryan is the CFO of Tempo Automation and previously served as CFO of Revasum, Inc. (ASX: RVS), BrainChip Holdings Ltd (ASX: BRN) and as CEO and Board Member at Exar Corporation (NYSE: EXAR), which was acquired by MaxLinear Corporation (NASDAQ: MXL) in May 2017. Previous roles included senior and consulting positions at ASM International NV (NASDAQ: ASMI), and eFunds Corporation (NASDAQ: EFDS).

Special responsibilities: Chairman of the Audit and Risk Management Committee
Member of the Remuneration and Nomination Committee

Other directorships: Non-executive director - Revasum, Inc. (ASX: RVS) and ACE Convergence Acquisition Corporation (NASDAQ: ACEVU)

Kevin Landis **Non-Executive Director**

Kevin joined the Board in 2012 and is the CEO and CIO of Firsthand Capital Management, an investment management firm he founded in 1994. Firsthand Capital Management is the investment adviser to Firsthand Technology Value Fund, Inc. (NASDAQ: SVVC), a publicly traded venture capital fund. Kevin has over two decades of experience in engineering, market research, product management and investing in the technology sector. Kevin is Firsthand's nominee director to the board of Pivotal Systems Corporation.

Special responsibilities: Member of the Audit and Risk Management Committee
Member of the Remuneration and Nomination Committee

Other directorships: Non-executive director - Revasum, Inc. (ASX: RVS), Hera Systems, Inc., IntraOp Medical Corp., QMAT, Inc. and Silicon Genesis Corp. and Wrightspeed, Inc.

David Michael **Non-Executive Director**

David Michael is Managing Director at Anzu Partners, an investment partnership which invests in innovative industrial technology companies. In addition to his role at Pivotal Systems, he is also Board member of Nuburu (industrial lasers), and Terapore (nanofiltration membranes for ultrapure water and other applications.

Mr. Michael was formerly Senior Partner and Managing Director of The Boston Consulting Group (BCG), where his career spanned numerous leadership roles across the firm. He formerly led BCG's Greater China business and their Asia Technology Practice. He served a range of clients in semiconductors, components, hardware, software, and services. He was based for 7 years in Silicon Valley and for 16 years in Greater China. He remains a Senior Advisor to the firm.

Special responsibilities: Member of the Audit and Risk Management Committee
Member of the Remuneration and Nomination Committee

Other directorships: Non-executive director - Taiwan Cement Corporation (XTAI:1101), Nuburu, Axsun, and Terapore

Peter McGregor **Independent Non-Executive Director**

Peter McGregor was appointed a non-executive director on 23 August 2018 and has over 30 years' experience in senior finance and management roles, including having been Chief Executive Officer of technology company, Think Holdings, Chief Financial Officer of the ASX50 transport company, Asciano, and a partner in the Investment Banking firm of Goldman Sachs JBWere.

He also spent time as a Managing Director within the Institutional Banking & Markets division of Commonwealth Bank and was Chief Operating Officer of ASX-listed Australian Infrastructure Fund. Peter is an experienced company Director, having served as Chairman of the Port of Geelong and as a Director of Melbourne, Gold Coast and Darwin Airports.

Special responsibilities: Chairman of the Remuneration and Nomination Committee
Member of the Audit and Risk Management Committee

Other directorships: Non-executive Director - Imricor Medical Systems, Inc.

Jason Korman **Non-Executive Director**

Jason Korman was appointed a non-executive director on 6 December 2021. Jason is a Partner at Viburnum Funds, an Australian-based active ownership investment management firm and a major shareholder of Pivotal with a 16.4% stake in the Company.

Jason has over 10 years' experience in private equity and investment management across Australia, Singapore and the USA at BGH Capital, Argand Partners and CHAMP Private Equity. He has been involved in numerous investments, exits and financings across a range of sectors including technology, education, manufacturing, chemicals and general industrial. Prior to this, Jason worked in investment banking at Credit Suisse.

Special responsibilities: None

Other directorships: None

SECURITIES HELD BY DIRECTORS AND KEY MANAGEMENT PERSONNEL

The directors and key management personnel of the Company are shown together with their holdings of shares of common stock and options, held directly or indirectly as at 31 December 2021:

	Common Stock	Options	Common Stock	Options
	Direct		Indirect	
John Hoffman	1,481,870	4,384,083	-	-
Dr. Joseph Monkowski	1,445,683	4,382,490	-	-
Ryan Benton	195,000	301,000	-	-
Kevin Landis (1)	-	-	231,535	-
David Michael	-	-	-	-
Peter McGregor	-	200,000	-	-
Jason Korman	-	-	-	-
Ron Warrington	-	1,000,000	-	-
Dennis Mahoney	-	375,000	-	-
Michael Bohn	-	225,000	-	-
	3,122,553	**10,867,573**	**231,535**	**-**

(1) Common stock held by Silicon Valley Investor Holdings Pty Ltd, of which Kevin Landis is the majority shareholder.

REMUNERATION REPORT

EXECUTIVE COMPENSATION

This section discusses the principles underlying our policies and decisions with respect to the compensation of our named executive officers, and all material factors relevant to an analysis of these policies and decisions. Our named executive officers for the year ended 31 December 2021 were:

John Hoffman	Executive Chairman and Chief Executive Officer
Dr Joseph Monkowski	President, Executive Director and Chief Technical Officer
Ron Warrington	Chief Financial Officer (appointed Aug 31, 2021)
Dennis Mahoney (1)	Chief Financial Officer (terminated Aug 31, 2021)
Michael Bohn	Acting Chief Financial Officer (June 2021 - August 2021)

(1) Mr. Mahoney served as Chief Financial Officer beginning in June 2020 but took medical leave of absence and stepped down as Chief Financial Officer in May 2021.

COMPONENTS OF EXECUTIVE COMPENSATION

The principal components of our executive compensation are base salary, cash bonuses under the Senior Executive Remuneration Scheme, and long-term incentives. Our Remuneration and Nomination Committee considers that each component of executive compensation must be evaluated and determined with reference to competitive market data, individual and corporate performance, our recruiting and retention goals and other information we deem relevant.

Our executive officers are also eligible to participate in our 401(k)-retirement plan as well as medical and other benefit plans.

The terms of each named executive officer's compensation are derived from the employment agreements the Company has entered into with them.

Senior Executive Remuneration Scheme 2020 – 2022

Mr. Hoffman and Dr. Monkowski each are eligible to receive cash bonuses pursuant to the Senior Executive Incentive Remuneration Scheme 2020-2022 (the "Bonus Plan"), which was adopted on June 23, 2020. The purpose of the Bonus Plan is to motivate and reward the eligible senior leadership team for their contributions toward the achievement of certain performance goals.

Administration

The Bonus Plan is administered by the Remuneration and Nomination Committee (the "Committee"), which has the discretionary authority to interpret the provisions of the Bonus Plan, including all decisions on eligibility to participate, the establishment of performance goals and the payment of awards.

Performance criteria

Cash bonus targets and corporate performance metrics for specific short-term and long-term performance periods pursuant to the Bonus Plan are established by the Committee. The Bonus Plan consists of the Short-Term Incentive Program and the Long-Term Incentive Program.

Short Term Incentive Program

Potential bonuses may be paid to Mr. Hoffman, Dr. Monkowski and other members of the senior leadership team selected by the Committee of up to 50% of base salary if key performance milestones are met by the end of the fiscal year. The key performance milestones include financial and business development goals. A portion of the short-term incentive bonus may also be based upon the discretion of our board of directors.

Long-Term Incentive Program

Potential bonuses may be paid to Mr. Hoffman, Dr. Monkowski and other members of the senior leadership team selected by the Committee subject to satisfaction of various performance hurdles, including: (i) our company achieving certain EBITDA targets for each of fiscal year 2020 to fiscal year 2022; (ii) our company achieving a market capitalization and share price target at the end of fiscal year 2022; and (iii) our company closing a change of control transaction at or above the target share price. Determination of the satisfaction of the 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 is $10 million, with 60% of the actual bonus pool payable to Mr. Hoffman, Dr. Monkowski and other members of the senior leadership team selected by the Committee.

No Tax Gross-Ups

We do not make gross-up payments to cover our named executive officers' personal income taxes that may pertain to any of the compensation paid or provided by us.

EXECUTIVE COMPENSATION PACKAGES FOR 2021

The components of the executive compensation packages for our named executive officers for the year ended 31 December 2021 are as follows:

John Hoffman *Executive Chairman and Chief Executive Officer*

Mr. Hoffman received a fixed remuneration package of $375,000 and is eligible to participate in various customary employee benefit plans of Pivotal. Pursuant to Mr. Hoffman's Retention Agreement, dated 11 May 2018, if Mr. Hoffman is terminated by the Company without cause or if he resigns for good reason and Mr. Hoffman signs a general release of claims in favor of the Company and complies with certain other requirements, the Company must pay Mr. Hoffman severance in an amount equal to twelve months of his base salary, twelve months of health insurance cover and 100% of his annual target bonus for the period in which termination occurs. All of Mr. Hoffman's unvested Options are subject to acceleration of vesting upon a change of control of the Company, and certain of his Options vest only subject to achievement of specified performance metrics and a time-based vesting schedule.

Dr. Joseph Monkowski *President, Executive Director and Chief Technical Officer*

Dr. Monkowski received a fixed remuneration package of $325,000 and is eligible to participate in various customary employee benefit plans of Pivotal. Pursuant to Dr. Monkowski's Retention Agreement, dated 11 May 2018, if Dr. Monkowski is terminated by the Company without cause or if he resigns for good reason and Mr. Hoffman signs a general release of claims in favor of the Company and complies with certain other requirements, the Company must pay Dr. Monkowski severance in an amount equal to twelve months of his base salary, twelve months of health insurance cover and 100% of his annual target bonus for the period in which termination occurs. All of Dr. Monkowski's unvested Options are subject to acceleration of vesting upon a change of control of the Company, and certain of his Options vest only subject to achievement of specified performance metrics and a time-based vesting schedule.

Ron Warrington *Chief Financial Officer (appointed on 31 August 2021)*

Mr. Warrington receives an annual base salary of $275,000 and is eligible to participate in various customary employee benefit plans of Pivotal. Under the terms of his offer of employment in August 2021, Mr. Warrington received an award of options to purchase up to 1,000,000 shares of our common stock and may receive a target bonus 45% of his base salary, subject to review and approval by the board of directors. In addition, all of his Options vest subject to a time-based vesting schedule and all of his unvested Options are subject to acceleration of vesting upon a change of control of the Company.

Dennis Mahoney Chief Financial Officer (terminated on 31 August 2021)

Mr. Mahoney received a fixed remuneration package of $250,000 and was eligible to participate in various customary employee benefit plans of Pivotal. All of Mr. Mahoney's unvested Options are subject to acceleration of vesting upon a change of control of the Company. In addition, all of his Options vest subject to a time-based vesting schedule.

Michael Bohn *Acting Chief Financial Officer (June'21 - August'21)*

Mr. Bohn received a fixed remuneration package of $195,000 and is eligible to participate in various customary employee benefit plans of Pivotal. All of Mr. Bohn's unvested Options are subject to acceleration of vesting upon a change of control of the Company. In addition, all of his Options vest subject to a time-based vesting schedule.

NON-EXECUTIVE COMPENSATION

The Board is responsible for determining and reviewing compensation arrangements for each non-executive director. The non-executive directors for the year ended 31 December 2021 were as follows:

Ryan Benton
Kevin Landis
David Michael
Peter McGregor
Jason Korman

The Company has entered into a non-executive director agreement with Mr. Benton whereby he is entitled to receive $70,000 per annum for his role as a non-executive director, and a further $15,000 per annum as chair of the Audit and Risk Committee.

The Company has also entered into a non-executive director agreement with Mr. McGregor whereby he is entitled to receive $70,000 per annum as a non-executive director, and a further $15,000 per annum as chair of the Remuneration and Nomination Committee.

Mr. Landis, Mr. Michael and Mr. Korman do not receive compensation for their services as a non-executive director.

REMUNERATION TABLE

Remuneration earned by key management personnel during 2020 and 2021 is summarized as follows:

2020	**Salary and Fees $**	**Bonus (1) $**	**401k & other benefits $**	**Share based compensation $**	**Total $**
John Hoffman	375,000	90,000	27,037	161,726	653,763
Joseph Monkowski	325,000	78,000	26,817	161,726	591,543
Ryan Benton	85,000	-	-	6,043	91,043
Kevin Landis	-	-	-	-	-
David Michael	-	-	-	-	-
Peter McGregor	85,000	-	-	16,221	101,221
Timothy Welch	63,295	-	11,696	104,628	179,619
Dennis Mahoney	216,333	31,152	1,333	-	248,818
	1,149,628	199,152	66,883	450,345	1,866,008

2021	Salary and Fees $	Bonus (1) $	401k & other Benefits $	Share based compensation $	Total $
John Hoffman	375,000	93,750	28,965	194,675	692,390
Joseph Monkowski	325,000	48,750	29,037	194,675	597,462
Ryan Benton	85,000	-	-	6,016	91,016
Kevin Landis	-	-	-	-	-
David Michael	-	-	-	-	-
Peter McGregor	85,000	-	-	22,222	107,222
Jason Korman	-	-	-	-	-
Ron Warrington	93,576	27,500	6,752	33,217	162,045
Dennis Mahoney	158,567	-	1,000	79,914	239,481
Michael Bohn	201,667	21,500	33,838	21,239	278,244
	1,323,810	191,500	99,592	551,958	2,166,860

(1) The 2020 Bonus was awarded and paid in March 2021 and the 2021 Bonus was awarded and paid in March 2022.

END OF REMUNERATION REPORT

Director’s Report

MEETINGS ATTENDED BY BOARD

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Board of Directors		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible	**Attendance**	**Eligible**	**Attendance**	**Eligible**	**Attendance**
John Hoffman	28	28	-	-	-	-
Joseph Monkowski	28	26	-	-	-	-
Ryan Benton	28	27	4	4	3	3
Kevin Landis	28	24	4	4	3	2
David Michael	28	28	4	4	3	3
Peter McGregor	28	23	4	4	3	3
Jason Korman	2	2	-	-	-	-

INDEMNITY AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into customary indemnification agreements under which it has indemnified directors and officers of the Company for losses incurred, or claims made and associated expenses incurred, in their capacity as a director or officer, for which they may be held personally liable, subject to certain limitations and exceptions.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year are due to tax advisory services for $22,890.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the Company.

On behalf of the directors

John Hoffman
Director and Chief Executive Officer

30 March 2022 (Fremont PST), 31 March 2021 (Sydney AEDT)

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	6,857
Prepaid expenses	314	332
Other current assets	602	127
Total current assets	21,478	20,312
Property, plant and equipment, net	765	336
Right of use assets, net	954	697
Other assets	28	558
Total assets	$ 23,225	$ 21,903
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, Note 18)		
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)	(111,801)
Total stockholders' equity	3,320	3,830
Total liabilities, redeemable preferred stock and stockholders' equity	$ 23,225	$ 21,903

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	19,405
Cost of service revenue	369	939
Total costs of goods and service revenue	21,414	20,344
Gross profit	342	8,901
Operating expenses:		
Research and development	5,335	6,533
Selling, general and administrative	7,698	9,829
Total operating expenses	13,033	16,362
Loss from operations	(12,691)	(7,461)
Other (expense) income:		
Interest expense	(187)	(120)
Foreign currency transaction loss	(1)	(12)
Gain on forgiveness of PPP loan	–	906
Other expense, net	–	(144)
Other (expense) income	(188)	630
Loss before provision for income taxes	(12,879)	(6,831)
Provision for income taxes	43	48
Net loss	$ (12,922)	$ (6,879)
Less deemed dividend to redeemable preferred stockholders	–	(368)
Net loss attributable to common stockholders, basic and diluted	$ (12,922)	$ (7,247)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.11)	$ (0.06)
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	—	—	—	—	—	(6,879)	(6,879)
Balance at December 31, 2021 .	11,528	$ 11,319	128,546,316	$ 1	$ 115,630	$ (111,801)	$ 3,830

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	2021
Cash Flows from Operating Activities		
Net loss	$ (12,922)	$ (6,879)
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)
Write off of deferred offering costs	—	2,190
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,744)	(2,246)
Inventories	1,506	(40)
Prepaid expenses	(1)	(18)
Other current assets	274	34
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 offering costs	—	(2,023)
Net cash provided by financing activities	13,870	4,928
Net increase (decrease) in cash	2,093	(3,551)
Cash and restricted cash at beginning of year	5,446	7,539

PIVOTAL SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in thousands)

	Year Ended December 31,			
		2020		2021
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	$	—	$	167
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).

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 $111.8 million.

The Company believes that cash as of December 31, 2021, of $4.0 million, together with $10.5 million of cash proceeds raised from the sale of equity subsequent to year-end (see Note 19), 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 remeasurement 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.

Deferred offering costs

The Company capitalizes certain legal, professional accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs, until such financings are consummated. After consummation of an equity financing, these costs are recorded as a reduction of the proceeds from the offering, either as a reduction to the carrying value of the preferred stock or in stockholder's deficit as a reduction of additional paid-in capital generated as a result of the offering. In December 2021 the Company wrote off $2,190,000 in deferred offering costs, due to delays and uncertainties around the Company's public listing in the United States.

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 (in thousands):

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

Restricted cash represents cash reserved for the redemption of redeemable preferred stock.

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 through 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 January 1, 2020, December 31, 2020, and 2021, the Company had contract liabilities of $31,000, $575,000 and $37,000, respectively. Revenue recognized from contract liabilities were $20,000 and $538,000 for the periods ended December 31, 2020, and 2021, 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 loss 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 loss per share is computed similarly to basic net loss 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	1,224
Total inventories	$ 6,817	$ 6,857

As of December 31, 2020 and 2021, the Company recorded inventory provisions totaling $981,000 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

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

	2020	2021
Cost of goods sold	$ 236	$ —
Selling, general and administrative	91	59
Research and development	106	284
Total Depreciation expense	$ 433	$ 343

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	127
Total	$ 602	$ 127

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. As of December 31, 2021, the amount available under the revolving credit line is $3.3 million. 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. 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, 2020 and 2021, the outstanding balance of the term loan was $1.75 million and $750,000, respectively. 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 financial covenants of the borrowing facilities require an adjusted current ratio of at least 1.20:1.00, 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 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 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.

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, net of debt costs, 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.

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 $1.8 million and $3.2 million during the years ended December 31, 2020 and December 31, 2021, respectively.

The estimated annual minimum purchase commitments with the suppliers were as follows (in thousands):

Year Ending December 31,	
2022	$ 3,429
2023	2,117
2024	2,000
2025	250
Total	$ 7,796

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.

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.

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 15).

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	$ (12,922)	$ (6,879)
Less: Deemed dividend to redeemable preferred stockholders	—	(368)
Net loss attributable to common stockholders	(12,922)	(7,247)
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)	$ (0.06)

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 December 31,	
	2020	2021
Common stock options issued and outstanding	16,734,199	16,548,497
	16,734,199	16,548,497

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	(1,167,752)	0.25		
Forfeited	(1,488,542)	1.17		
Expired	(4,408)	17.70		
Outstanding – December 31, 2021	16,548,497	$ 0.60	$ 0.24	5.86
Vested and expected to vest as of December 31, 2021	15,928,432	$ 0.58		5.75
Options exercisable as of December 31, 2021	12,325,751	$ 0.46		4.79

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, 2021, the aggregate intrinsic value of options vested and expected to vest was $3.5 million, and the aggregate intrinsic value of options exercisable was $3.5 million. 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 $1.7 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 2.8 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	$ 11,193	$ 12,312
Research and development credits	1,144	1,437
Depreciation and amortization	57	151
Reserves and accruals	509	585
Total deferred tax assets	12,903	14,485
Valuation allowance	(12,903)	(14,485)
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 $2.9 million and $1.6 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, 2021, the Company had federal and state net operating loss carry-forwards of approximately $96.1 million and $34.3 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, 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	0.65%	3.03%
Change in valuation allowance	(22.40)%	(22.74)%
Research and development credit (net of reserve)	1.57%	3.02%
Other	(0.95)%	-4.72%
Effective tax rate	(0.13)%	(0.41)%

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
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. The federal and state income tax returns are open under the statute of limitations subject to tax examinations for the tax years ended December 31, 2018 through December 31, 2020 and December 31, 2017 through December 31, 2020, respectively. 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 14).

On December 21, 2020, the Company received $4.0 million funding from the issue of 6,124,786 CHESS Depositary Interests at an issue price of A$0.86 per CDI to Viburnum Funds under the institutional placement announced on 21 December 2020.

As discussed in Note 14, 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 July 21, 2021, the Company received binding commitments for a $6.7 million share placement to new and existing investors, including Viburnum Funds and Anzu Partners, LLC. Out of these commitments, on July 28, 2021, the Company received $5.8 million funding for the issuance of 6,177,809 CDI's, and on September 17, 2021, it issued 959,986 CDIs to raise the remaining $0.9 million after obtaining shareholder approval on September 13, 2021.

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 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 December 31, 2020 and 2021 were Nil.

19. Subsequent Events

On February 3, 2022, the Company entered into an underwritten rights offering of 30,317,527 CDIs to raise maximum gross proceeds of approximately $10.5 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 $10.0 million, net of $0.6 million issuance costs. $3.9 million of the proceeds were received from Viburnum Funds and $3.7 million from Anzu Partners, LLC.

During January and February 2022, 167,500 stock options were granted pursuant to the Company's equity incentive plan.

The Company has evaluated subsequent events through March 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 financial statements and notes thereto, comply with accounting principles generally accepted in the United States (U.S. GAAP).

2. The financial statements and notes thereto, give a true and fair view of the Company’s financial position as at 31 December 2021 and of the performance for the 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,

John Hoffman
Executive Chairman and Chief Executive Officer

30 March 2022 (Fremont PST), 31 March 2022 (Sydney AEDT)

Independent Auditor’s Report

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San Francisco, CA 94104

Independent Auditor’s Report

Board of Directors
Pivotal Systems Corporation
Fremont, California

Opinion

We have audited the consolidated financial statements of Pivotal Systems Corporation (the “Company”), which comprise the consolidated balance sheets as of December 31, 2020 and 2021, and the related consolidated statements of operations, redeemable preferred stock and stockholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

San Francisco, California
March 30, 2022

Additional Shareholder’s Information
SHAREHOLDER INFORMATION AS AT 1 MARCH 2022

Additional Shareholder Information required by the Australian Securities Exchange (ASX) Listing Rules is set out below.

In accordance with the ASX Corporate Governance Council’s, Corporate Governance Principles and Recommendations (4th edition), the 2021 Corporate Governance Statement, as approved by the Board, is available on the Company’s website at: https://www.pivotalsys.com/investors. The Corporate Governance Statement sets out the extent to which Pivotal has followed the ASX Corporate Governance Council’s 35 specific Recommendations of general application and three additional Recommendations applicable in certain cases, to the extent applicable to Pivotal during the 2021 financial year.

The Company’s securities have been listed for quotation in the form of CHESS Depositary Interests, or CDIs, on the ASX and trade under the symbol “PVS” since 2 July 2018. Legal title to the shares of common stock (Shares) underlying the CDIs is held by CHESS Depositary Nominees Pty Ltd (CDN), a wholly owned subsidiary of the ASX. Each Share is equivalent to 1 CDI.

As at the date of this report, 153,883,426 CDIs are issued and held by 466 CDI holders which represents 153,883,426 underlying Shares. 4,980,417 Shares are held by 39 shareholders who have not elected to hold Company securities in the form of CDIs.

Assuming all Shares were held as CDIs, the Company would have 158,863,843 CDIs on issue.

1. Substantial shareholders

The number of CDIs (assuming all Shares are held as CDIs) held by substantial shareholders and their associates as advised to the ASX are set out below:

Name	Number CDIs	% of total CDIs
Firsthand Capital Mgt	42,239,506	26.59
Viburnum Funds	32,141,394	20.23
Anzu Partners	28,194,189	17.75
Perennial Value Mgt	15,773,173	9.93

2. Number of security holders and securities on issue

Pivotal has issued the following securities:

(a) 4,980,417 fully paid ordinary shares held by 39 shareholders;
(b) 153,883,426 CDIs held by 466 CDI holders;
(c) 11,248 Redeemable RBI Preferred Stock held by 1 holder; being Anzu Industrial USA LLC (now known as Anzu RBI Mezzanine Preferred LLC);
(d) 16,576,414 unlisted options exercisable at various prices held by 57 option holders.

Details of the Top 20 Shareholders are set out in section 6 below.

3. Voting rights

Shares of common stock

At a meeting of the Company’s stockholders, every stockholder present, in person or by proxy is entitled to one vote for each share of common stock held on the record date for the meeting on all matters submitted to a vote of stockholders.

CDIs

CDI holders are entitled to one vote for every one CDI they hold. To vote, holders of CDIs must instruct CDN, as the legal owner of the CDIs, to vote the shares of common stock underlying their CDIs in a particular manner.

Options

Option holders do not have any voting rights on the options held by them. Shares of common stock issued to option holders on exercise of their options will have the same voting rights as the holder of shares of common stock.

Redeemable RBI Preferred Stock

RBI Preferred Stockholders will not be entitled to vote at any general meeting of the Company except in the following circumstances:

- On a proposal:
  - that affects rights attached to RBI Preferred Stock;
  - to wind up the Company; or
  - for the disposal of the whole of the property, business and undertaking of the Company;
- On a resolution to approve:
  - the terms of a share buy-back agreement;
  - a reduction of the share capital of the Company,

  other than a resolution to approve a buy-back or reduction of capital with respect to RBI Preferred Stock;
- During a period in which a dividend or part of a dividend in respect of an RBI Preferred Stock is in arrears; or
- During the winding-up of the Company.

At a general meeting of the Company at which RBI Preferred Stockholders may vote, they are entitled:

- to one vote on a show of hands; and
- to one vote for each RBI Preferred Stock on a poll.

RBI Preferred Stockholders will have the same rights as holders of shares of Common Stock/CDIs in the Company to receive notices, reports and audited accounts from the Company and to attend general meetings.

4. Distribution schedules of security holders

Category	**Chess Depositary Interests (CDIs)***		
	Total Shareholders	Number of Shares	%
1 - 1,000	163	78,059	0.05
1,001 - 5,000	151	413,959	0.26
5,001 - 10,000	67	510,050	0.32
10,001 - 100,000	90	2,819,081	1.77
100,001 and over	34	155,042,694	97.60
Total	**505**	**158,863,843**	**100.00**

*Total shareholders and number of CDIs assuming all common shares held are CDIs.

Category	Fully Paid Shares of Common Stock		
	Total Shareholders	Number of Shares	%
1 - 1,000	16	1,043	0.02
1,001 - 5,000	4	12,647	0.25
5,001 - 10,000	3	20,936	0.42
10,001 - 100,000	8	413,259	8.30
100,001 and over	8	4,532,532	91.01
Total	**39**	**4,980,417**	100.00

Category	Chess Depositary Interests (CDIs)		
	Total CDI Holders	**Number of CDIs**	**%**
1 - 1,000	147	77,016	0.05
1,001 - 5,000	147	401,312	0.26
5,001 - 10,000	64	489,114	0.32
10,001 - 100,000	82	2,405,822	1.56
100,001 and over	26	150,510,162	97.81
Total	**466**	**153,883,426**	**100.00**

Category	Unquoted Options		
	Total Option Holders	**Number of Options**	**%**
1 - 1,000	-	-	0.00
1,001 - 5,000	-	-	0.00
5,001 - 10,000	9	75,563	0.46
10,001 - 100,000	25	1,017,000	6.14
100,001 and over	23	15,483,851	93.41
Total	57	16,576,414	100.00

Note that the Unquoted Options as stated above have various exercise prices and expiry dates.

5. Unmarketable parcel of shares

The number of CDI Holders holding less than a marketable parcel of CDIs (being A$500) is 137 (representing 52,059 CDIs).

6. Twenty largest shareholders of quoted equity securities

Chess Depositary Interests only

Details of the 20 largest CDI Holders by registered CDI holding are as follows.

	Name	No. of CDIs	%
1	HSBC Custody Nominees (Australia) Limited	60,906,318	39.58
2	Citicorp Nominees Pty Limited	23,361,799	15.18
3	National Nominees Limited	21,845,115	14.20
4	J P Morgan Nominees Australia Pty Limited	20,114,569	13.07
5	Enterprise Partners Management Llc	7,677,125	4.99
6	BNP Paribas Nominees Pty Ltd	3,959,181	2.58
7	Anzu Industrial Capital	3,492,929	2.27
8	Cs Third Nominees Pty Limited	2,397,025	1.56
9	AICP Limited	1,789,571	1.16
10	Anzu Industrial Fund One Annex Lp	1,054,989	0.69
11	Bnp Paribas Nominees Pty Ltd	900,000	0.58
12	Ms Kerstin Ann Schneider	550,000	0.36
13	Foster Capital Nz Limited	294,340	0.19
14	Tokyo Electron Europe Limited	268,818	0.17
15	Pacific Custodians Pty Limited	265,471	0.17
16	Mr John Patrick Hoffman	219,597	0.14
17	Joseph Monkowski	170,482	0.11
18	Ray Malone	167,430	0.11
19	Ract Super Pty Ltd	151,020	0.10
20	Jetstream Holdings Pty Ltd	150,000	0.10
	Total	149,753,550	97.31
	Balance of register	4,129,876	2.69
	Grand total	**153,883,426**	**100.00**

Fully Paid Ordinary Shares of Common Stock and CDIs combined

Details of the 20 largest Shareholders by registered shareholding on the basis that all shares of common stock on issue are held as CDIs are as follows.

	Name	**No. of Shares**	**%**
1	Chess Depository Nominees Pty Limited	153,883,426	96.86
2	Joseph Monkowski	1,616,164	1.02
3	John Hoffman	1,611,771	1.01
4	Hoseung Chang Hs Inc 13	388,670	0.24
5	Jiuyi Cheng	250,000	0.16
6	Ryan Benton	195,000	0.12
7	Adam Monkowski and Melanie A Gossheider	170,972	0.11
8	Sophia L Shtilman	165,000	0.10
9	Carter Crum	134,955	0.08
10	Travis Owens	100,000	0.06
11	James T Franklin	97,065	0.06
12	Joseph Bronson	83,146	0.05
13	William Rothrock	37,083	0.02

	Name	No. of Shares	%
14	Mukund Venkatesh	36,590	0.02
15	Gabriel Segovia	25,000	0.02
16	Anne R Reynolds	20,000	0.01
17	Jialing Chen	14,375	0.01
18	Raymond & Hillary Karno	10,000	0.01
19	Itu Ventures West I L.P.	5,624	0.00
20	Nina G Tasheva	5,312	0.00
	Total	**158,850,153**	**99.99**
	Balance Of Register	13,690	0.01
	Grand Total	**158,863,843**	**100.00**

Subject to rounding

7. The name of the entity's secretary

The Company has not formally appointed a Company Secretary but has appointed Company Matters Pty Ltd to provide it with general company secretarial services. Mr Danny Davies has been appointed as the Company's ASX Representative pursuant to ASX Listing Rule 12.6.

8. The address and telephone number of the Company's registered office in Australia; and of its principal administrative office.
The Company is incorporated in Delaware, United States.
The Company's registered office in the USA is:
C/- Incorporating Services Ltd, 3500 South Dupont Highway, Dover, Delaware 19901 USA
The Company's Principal place of business is:
Suite 100, 48389 Fremont Blvd, Fremont, CA 94538 USA.
T: +1 (510) 770 9125

The Company's registered office in Australia is:
Company Matters Pty Ltd
Level 12, 680 George Street, Sydney NSW 2000
T: +61 (02) 8280 7355

9. The address and telephone number of each office at which a register of securities, register of depositary receipts or other facilities for registration of transfers is kept.

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

Link Market Services
Level 12, 680 George Street
Sydney NSW 2000 Australia
T: +61 1300 554 474

10. The Company's securities are not traded on any other exchange other than the ASX.

11. There are no restricted securities or securities subject to voluntary escrow on issue.

Note: Official quotation of the Company's CDIs occurred on July 2, 2018.

12. Review of operations and activities

A detailed review of operations and activities is reported in the 2021 Annual Report.

13. On market buy-back

There is no current on market buy-back.

14. Other

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.

Pivotal is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth) dealing with the acquisition of its shares (including substantial holdings and takeovers).

Anti-takeover provisions of Delaware Law, Certificate of Incorporation and Bylaws

Provisions of the Delaware General Corporation Law, 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 (summarized below) 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.

The Company's bylaws do not contain any limitations on the acquisition of securities, except that clause 9 of Article XI, Section 11.1. of the bylaws provides as follows:

> "The Corporation may refuse to acknowledge or register any transfer of shares of the Corporation's capital stock (including shares in the form of CDIs) held or acquired by a stockholder (including shares of the Corporation's capital stock that may be acquired upon exercise of a stock option, warrant or other right) or shares of the Corporation's capital stock which attach to or arise from such shares which are not made:
>
> a. in accordance with the provisions of Regulation S of the Securities Act of 1933 (U.S.), as amended to date and the rules and regulations promulgated thereunder (the "U.S. Securities Act") (Rule 901 through Rule 905 and preliminary notes);
>
> b. pursuant to registration under the U.S. Securities Act; or
>
> c. pursuant to an available exemption from registration."