

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-37900

**Everspin Technologies, Inc.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

26-2640654  
(I.R.S. Employer  
Identification No.)

5670 W. Chandler Boulevard, Suite 100  
Chandler, Arizona 85226  
(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: (480) 347-1111

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001	MRAM	The Nasdaq Stock Market LLC

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Small reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares of Registrant's Common Stock outstanding as of October 30, 2020 was 19,005,599.

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In this Quarterly Report on Form 10-Q, “we,” “our,” “us,” “Everspin Technologies,” and “the Company” refer to Everspin Technologies, Inc. The Everspin logo and other trade names, trademarks or service marks of Everspin Technologies are the property of Everspin Technologies, Inc. This report contains references to our trademarks and to trademarks belonging to other entities. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective holders. We do not intend our use or display of other companies’ trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

**PART I—FINANCIAL INFORMATION****Item 1. Financial Statements**

**EVERSPIN TECHNOLOGIES, INC.**  
**Condensed Balance Sheets**  
**(In thousands, except share and per share amounts)**

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,927	\$ 14,487
Accounts receivable, net	8,167	5,799
Inventory	6,173	7,863
Prepaid expenses and other current assets	99	539
Total current assets	28,366	28,688
Property and equipment, net	2,126	3,479
Right-of-use assets	2,652	3,132
Other assets	73	73
Total assets	<u>\$ 33,217</u>	<u>\$ 35,372</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,806	\$ 2,873
Accrued liabilities	1,708	2,727
Current portion of long-term debt	3,614	670
Operating lease liabilities	1,531	1,582
Other liabilities	38	42
Total current liabilities	9,697	7,894
Long-term debt, net of current portion	4,283	7,149
Operating lease liabilities, net of current portion	1,279	1,840
Total liabilities	15,259	16,883
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value per share; 5,000,000 shares authorized; no shares issued and outstanding as of September 30, 2020 and December 31, 2019	—	—
Common stock, \$0.0001 par value per share; 100,000,000 shares authorized; 18,970,791 and 18,081,753 shares issued and outstanding as of September 30, 2020 and December 31, 2019	2	2
Additional paid-in capital	173,539	167,149
Accumulated deficit	(155,583)	(148,662)
Total stockholders' equity	17,958	18,489
Total liabilities and stockholders' equity	<u>\$ 33,217</u>	<u>\$ 35,372</u>

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

**EVERSPIN TECHNOLOGIES, INC.**  
**Condensed Statements of Operations and Comprehensive Loss**  
(In thousands, except share and per share amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product sales	\$ 9,577	\$ 8,370	\$ 30,139	\$ 25,396
Licensing, royalty, and other revenue	543	808	1,915	2,454
Total revenue	10,120	9,178	32,054	27,850
Cost of sales	7,791	4,824	19,183	14,692
Gross profit	2,329	4,354	12,871	13,158
Operating expenses: <sup>1</sup>				
Research and development	2,579	3,395	8,383	10,912
General and administrative	2,549	3,050	7,797	9,501
Sales and marketing	912	1,491	3,071	4,094
Total operating expenses	6,040	7,936	19,251	24,507
Loss from operations	(3,711)	(3,582)	(6,380)	(11,349)
Interest expense	(157)	(170)	(501)	(567)
Other (expense) income, net	(27)	89	(40)	327
Net loss and comprehensive loss	\$ (3,895)	\$ (3,663)	\$ (6,921)	\$ (11,589)
Net loss per common share, basic and diluted	\$ (0.21)	\$ (0.21)	\$ (0.37)	\$ (0.67)
Weighted-average shares used to compute net loss per common share, basic and diluted	18,942,163	17,312,226	18,705,149	17,183,306
<sup>1</sup> Operating expenses include stock-based compensation as follows:				
Research and development	\$ 182	\$ 176	\$ 538	\$ 484
General and administrative	657	627	1,888	1,692
Sales and marketing	71	92	207	221
Total stock-based compensation	\$ 910	\$ 895	\$ 2,633	\$ 2,397

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

**EVERSPIN TECHNOLOGIES, INC.**  
**Condensed Statements of Stockholders' Equity**  
(In thousands, except share and per share amounts)  
(Unaudited)

	Three and Nine Months Ended September 30, 2020				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2019	18,081,753	\$ 2	\$ 167,149	\$ (148,662)	\$ 18,489
Issuance of common stock in at-the-market offering, net of issuance costs (Note 7)	468,427	—	2,084	—	2,084
Adjustment to opening balance for adoption of new accounting standard					—
Issuance of common stock under stock incentive plans	88,375	—	315	—	315
Compensation expense related to vesting of common stock issued to GLOBALFOUNDRIES					—
Stock-based compensation expense	—	—	805	—	805
Net loss	—	—	—	(1,732)	(1,732)
Balance at March 31, 2020	18,638,555	\$ 2	\$ 170,353	\$ (150,394)	\$ 19,961
Issuance of common stock under stock incentive plans	231,220	—	827	—	827
Stock-based compensation expense	—	—	918	—	918
Net loss	—	—	—	(1,294)	(1,294)
Balance at June 30, 2020	18,869,775	\$ 2	\$ 172,098	\$ (151,688)	\$ 20,412
Issuance of common stock under stock incentive plans	101,016	—	379	—	379
Stock-based compensation expense	—	—	910	—	910
Issuance of warrant	—	—	152	—	152
Net loss	—	—	—	(3,895)	(3,895)
Balance at September 30, 2020	18,970,791	\$ 2	\$ 173,539	\$ (155,583)	\$ 17,958

	Three and Nine Months Ended September 30, 2019				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2018	17,095,456	\$ 2	\$ 158,912	\$ (133,993)	\$ 24,921
Issuance of common stock under stock incentive plans	12,607	—	13	—	13
Stock-based compensation expense	—	—	704	—	704
Net loss	—	—	—	(4,256)	(4,256)
Balance at March 31, 2019	17,108,063	\$ 2	\$ 159,629	\$ (138,249)	\$ 21,382
Issuance of common stock under stock incentive plans	43,227	—	137	—	137
Stock-based compensation expense	—	—	798	—	798
Net loss	—	—	—	(3,670)	(3,670)
Balance at June 30, 2019	17,151,290	\$ 2	\$ 160,564	\$ (141,919)	\$ 18,647
Issuance of common stock under stock incentive plans	7,341	—	28	—	28
Stock-based compensation expense	—	—	895	—	895
Modification of warrant in connection with 2019 Credit Facility	—	—	(19)	—	(19)
Issuance of common stock in at the market offering	377,115	—	2,172	—	2,172
Net loss	—	—	—	(3,663)	(3,663)
Balance at September 30, 2019	17,535,746	\$ 2	\$ 163,640	\$ (145,582)	\$ 18,060

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

**EVERSPIN TECHNOLOGIES, INC.**  
**Condensed Statement of Cash Flows**  
**(In thousands)**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (6,921)	\$ (11,589)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,611	1,297
Loss on disposal of property and equipment	—	20
Stock-based compensation	2,633	2,397
Non-cash loss on warrant revaluation	2	—
Non-cash interest expense	231	219
Inventory reserves	1,692	—
Changes in operating assets and liabilities:		
Accounts receivable	(2,368)	1,954
Inventory	(2)	779
Prepaid expenses and other current assets	440	466
Accounts payable	(31)	518
Accrued liabilities	(692)	(1,444)
Lease liabilities	(132)	(72)
Net cash used in operating activities	<u>(3,537)</u>	<u>(5,455)</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(307)	(566)
Net cash used in investing activities	<u>(307)</u>	<u>(566)</u>
<b>Cash flows from financing activities</b>		
Payments on debt	—	(4,840)
Payments of debt issuance costs	—	(80)
Payments on finance lease obligation	(6)	(8)
Proceeds from exercise of stock options and purchase of shares in employee stock purchase plan	1,206	178
Proceeds from issuance of common stock in at-the-market offering, net of issuance costs	2,084	2,172
Net cash provided by (used in) financing activities	<u>3,284</u>	<u>(2,578)</u>
Net decrease in cash and cash equivalents	(560)	(8,599)
Cash and cash equivalents at beginning of period	14,487	23,379
Cash and cash equivalents at end of period	<u>\$ 13,927</u>	<u>\$ 14,780</u>
<b>Supplementary cash flow information:</b>		
Interest paid	\$ 271	\$ 373
Operating cash flows paid for operating leases	\$ 1,298	\$ 1,264
Financing cash flows paid for finance leases	\$ 6	\$ 8
<b>Non-cash investing and financing activities:</b>		
Right-of-use assets obtained in exchange for new operating leases	\$ —	\$ 23
Increase of right-of-use asset and lease liability due to lease modification	\$ 545	\$ —
Purchase of property and equipment in accounts payable and accrued liabilities	\$ 8	\$ 33
Bonus settled in shares of common stock	\$ 315	\$ —
Modification of warrant	\$ —	\$ 36
Issuance of warrant	\$ 152	\$ —

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

**EVERSPIN TECHNOLOGIES, INC.**

**Notes to Unaudited Condensed Financial Statements**

**1. Organization and Nature of Business**

Everspin Technologies, Inc. (the Company) was incorporated in Delaware on May 16, 2008. The Company's magnetoresistive random-access memory (MRAM) solutions offer the persistence of non-volatile memory with the speed and endurance of random-access memory (RAM) and enable the protection of mission critical data particularly in the event of power interruption or failure. The Company's MRAM solutions allow its customers in the industrial, automotive, transportation, and data center markets to design high performance, power efficient and reliable systems without the need for bulky batteries or capacitors.

***Ability to continue as a going concern***

The Company believes that its existing cash and cash equivalents as of September 30, 2020, coupled with its anticipated growth and sales levels will be sufficient to meet its anticipated cash requirements for at least the next twelve months from the financial statement issuance date. The Company's future capital requirements will depend on many factors, including its growth rate, the timing and extent of its spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, and the introduction of new products. The Company may be required at some point in the future to seek additional equity or debt financing, to sustain operations beyond that point, and such additional financing may not be available on acceptable terms or at all. If the Company is unable to raise additional capital or generate sufficient cash from operations to adequately fund its operations, it will need to curtail planned activities to reduce costs. Doing so will likely harm its ability to execute on its business plan.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2019 has been derived from the audited financial statements at that date but does not include all of the information required by GAAP for complete financial statements. These unaudited interim condensed financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial information. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any other interim period or for any other future year.

The accompanying condensed financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K filed with the SEC.

***Use of Estimates***

The preparation of the condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, fair value of assets and liabilities, inventory reserves, product warranty reserves, deferred tax assets and related valuation allowances, and stock-based compensation. The Company believes its estimates and assumptions are reasonable; however, actual results may differ from the Company's estimates.

**Accounts receivable, net**

The Company establishes an allowance for product returns. The Company analyzes historical returns, current economic trends and changes in customer demand and acceptance of products when evaluating the adequacy of sales returns. Returns are processed as credits on future purchases, and as a result, the allowance is recorded against the balance of trade accounts receivable. In addition, the Company establishes an allowance for estimated price concessions related to its distributor agreements. The Company estimates credits to distributors based on the historical rate of credits provided to distributors relative to sales.

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

	September 30, 2020	December 31, 2019
Trade accounts receivable	\$ 8,142	\$ 5,454
Unbilled accounts receivable	168	576
Allowance for product returns and price concessions	(143)	(231)
Accounts receivable, net	<u>\$ 8,167</u>	<u>\$ 5,799</u>

**Concentration of Credit Risk**

Financial instruments that potentially expose the Company to a concentration of credit risk consist principally of cash and cash equivalents that are held by a financial institution in the United States and accounts receivable. Amounts on deposit with a financial institution may at times exceed federally insured limits. The Company maintains its cash accounts with high credit quality financial institutions and, accordingly, minimal credit risk exists with respect to the financial institutions.

Significant customers are those which represent more than 10% of the Company’s total revenue or net accounts receivable balance at each respective balance sheet date. For the purposes of this disclosure, the Company defines “customer” as the entity that is purchasing the products or licenses directly from the Company, which includes the distributors of the Company’s products in addition to end customers that the Company sells to directly. For each significant customer, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable, net are as follows:

Customers	Revenue				Accounts Receivable, net	
	Three Months Ended		Nine Months Ended		As of	
	September 30, 2020	2019	September 30, 2020	2019	September 30, 2020	December 31, 2019
Customer A	38 %	25 %	32 %	19 %	47 %	41 %
Customer B	*	*	*	*	*	11 %
Customer C	*	*	*	12 %	*	*
Customer D	*	*	*	11 %	*	*
Customer E	*	12 %	*	12 %	*	*
Customer F	*	10 %	*	*	*	*

\* Less than 10%

**Fair Value of Financial Instruments**

Fair value is defined as an exit price, representing the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. The framework for measuring fair value provides a three-tier hierarchy prioritizing inputs to valuation techniques used in measuring fair value as follows:

Level 1— Observable inputs such as quoted prices for identical assets or liabilities in active markets;

Level 2— Inputs, other than quoted prices for identical assets or liabilities in active markets, which are observable either directly or indirectly; and



Level 3— Unobservable inputs in which there is little or no market data requiring the reporting entity to develop its own assumptions

As of September 30, 2020, based on Level 2 inputs and the borrowing rates available to the Company for loans with similar terms and consideration of the Company’s credit risk, the carrying value of the Company’s variable interest rate debt, excluding unamortized debt issuance costs, approximates fair value. The Company’s financial instruments consist of Level 1 assets and a Level 3 liability. Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 assets consist of highly liquid money market funds that are included in cash equivalents. The Company’s Level 3 liability consists of warrants issued in connection with the Company’s current credit facility (Note 6).

The following tables sets forth the fair value of the Company’s financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	September 30, 2020			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$ 14,011	\$ —	\$ —	\$ 14,011
Total assets measured at fair value	<u>\$ 14,011</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,011</u>
<b>Liabilities:</b>				
Warrant liability	\$ —	\$ —	\$ 35	\$ 35
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35</u>	<u>\$ 35</u>
	December 31, 2019			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Money market funds	\$ 12,367	\$ —	\$ —	\$ 12,367
Total assets measured at fair value	<u>\$ 12,367</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,367</u>
<b>Liabilities:</b>				
Warrant liability	\$ —	\$ —	\$ 33	\$ 33
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ 33</u>

**Recently Issued Pronouncements**

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. As the Company is a smaller reporting company, ASU 2016-13 is effective for the Company’s annual reporting periods, and interim periods within those years, beginning after December 15, 2022, and requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements Financial Instruments-Credit Losses (Topic 326)*. The new ASU provides narrow-scope amendments to help apply ASU No. 2016-13. The Company is evaluating the impact of the adoption of ASU 2016-13 and ASU 2019-04 on its financial statements.

### 3. Revenue

The Company sells the majority of its products to its distributors, but also to original equipment manufacturers (OEMs). The Company also recognizes revenue under licensing and royalty agreements with some customers. The following table presents the Company's revenues disaggregated by sales channel (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Distributor	\$ 5,385	\$ 5,720	\$ 18,952	\$ 18,469
Non-distributor	4,735	3,458	13,102	9,381
Total revenue	<u>\$ 10,120</u>	<u>\$ 9,178</u>	<u>\$ 32,054</u>	<u>\$ 27,850</u>

The following table presents the Company's revenues disaggregated by timing of recognition (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Point in time	\$ 9,756	\$ 8,525	\$ 30,982	\$ 26,156
Over time	364	653	1,072	1,694
Total revenue	<u>\$ 10,120</u>	<u>\$ 9,178</u>	<u>\$ 32,054</u>	<u>\$ 27,850</u>

The following table presents the Company's revenues disaggregated by type (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Product sales	\$ 9,577	\$ 8,370	\$ 30,139	\$ 25,396
Royalties	179	155	843	760
Other revenue	364	653	1,072	1,694
Total revenue	<u>\$ 10,120</u>	<u>\$ 9,178</u>	<u>\$ 32,054</u>	<u>\$ 27,850</u>

The Company recognizes revenue in three primary geographic regions: North America; Europe, Middle East and Africa (EMEA); and Asia-Pacific and Japan (APJ). The following table presents the Company's revenues disaggregated by the geographic region to which the product is delivered or licensee is located (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
North America	\$ 2,109	\$ 1,527	\$ 5,033	\$ 7,244
EMEA	859	2,048	4,586	6,776
APJ	7,152	5,603	22,435	13,830
Total revenue	<u>\$ 10,120</u>	<u>\$ 9,178</u>	<u>\$ 32,054</u>	<u>\$ 27,850</u>

### 4. Balance Sheet Components

#### Inventory

Inventory consisted of the following (in thousands):

	<u>September 30,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
Raw materials	\$ 366	\$ 119
Work-in-process	5,042	6,329
Finished goods	765	1,415
Total inventory	<u>\$ 6,173</u>	<u>\$ 7,863</u>

During the three months ended September 30, 2020, the Company recorded a \$1.7 million reserve for excess and obsolete inventory as a result of management's quarterly assessment of declining forecasted demand and the loss of certain designs in the period.

### Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2020	December 31, 2019
Accrued payroll-related expenses	\$ 1,088	\$ 1,236
Accrued joint development agreement expenses	—	170
Accrued inventory	311	87
Restructuring expenses	—	782
Other	309	452
Total accrued liabilities	<u>\$ 1,708</u>	<u>\$ 2,727</u>

As of September 30, 2020, the Company completed the corporate restructuring activity initiated during the year ended December 31, 2019. Cash paid for employee severance and benefit arrangements in connection with the restructuring activity were \$0.06 million and \$0.8 million during the three months and nine months ended September 30, 2020, respectively.

### 5. Leases

Operating leases consist primarily of office space expiring at various dates through 2023. In May 2020, the Company executed an amendment to its lease agreement for its manufacturing facility. The amendment extended the lease term by one year and reduced the monthly rent payment.

The undiscounted future non-cancellable lease payments under the Company's operating leases were as follows (in thousands):

As of September 30, 2020	Amount
2020 (remaining three months)	\$ 437
2021	1,603
2022	861
2023	68
Total undiscounted lease payments	<u>\$ 2,969</u>

### 6. Debt

#### 2019 Credit Facility

In August 2019, the Company executed an Amended and Restated Loan and Security Agreement (2019 Credit Facility), which amended and restated the Company's prior loan and security agreement (2017 Credit Facility), providing for a formula revolving line of credit (Line of Credit) and a term loan (2019 Term Loan) with Silicon Valley Bank (SVB) to refinance in full the outstanding principal balance of \$8.0 million under the 2017 Credit Facility. In August 2019, the Company paid the final payment of \$0.8 million, which was due upon the refinancing of the 2017 Credit Facility.

In July 2020, the Company executed the first amendment to the 2019 Credit Facility with SVB. The amendment, among other things, extended the initial 12 months interest-only period for the 2019 Term Loan to a 16 months interest-only period and lowered the floor interest rate. The floor interest rates for 2019 Term Loan and the Line of Credit were reduced from 4.75% and 6.75% to 3.75% and 4.75%, respectively.

The amended Line of Credit allows for a maximum draw of \$5.0 million, subject to a formula borrowing base, has a two-year term and bears interest at a floating rate equal to the Wall Street Journal (WSJ) prime rate plus 1.5%, per annum, subject to a floor of 4.75%. As of September 30, 2020, the interest rate was 4.75%. The Line of Credit required a commitment fee of 1.6% of the maximum availability of the Line of Credit, which was paid in August 2019 upon closing, and was accounted for as a debt discount. The Line of Credit also provides for a termination fee equal to 1% of the maximum availability under the Line of Credit, which is due in case of a termination of the Line of Credit prior to the

scheduled maturity date, and an unused facility fee equal to 0.125% per annum of the average unused portion of the Line of Credit, which is expensed as incurred. At execution, \$2.0 million from the Line of Credit was used to refinance a portion of the outstanding balance of the 2017 Credit Facility, and \$3.0 million remains available under the Line of Credit, subject to borrowing base availability. As of September 30, 2020, the effective interest rate under the Line of Credit was 10.18% and the outstanding balance was \$2.0 million. The Line of Credit matures on August 5, 2021.

The amended 2019 Term Loan provides for a \$6.0 million term loan, which was used to refinance the remaining balance of the 2017 Credit Facility. The 2019 Term Loan has a term of 46 months, and a 16-month interest only period followed by 30 months of equal principal payments, plus accrued interest. The 2019 Term Loan bears interest at a floating rate equal to the WSJ prime rate minus 0.75%, subject to a floor of 3.75%. As of September 30, 2020, the interest rate was 3.75%. A final payment of 7% of the original principal amount of the 2019 Term Loan must be made when the 2019 Term Loan is prepaid or repaid, whether at maturity or as a result of a prepayment or acceleration or otherwise. The additional payment, which is accounted for as a debt discount, is being accreted using the effective interest method. The 2019 Term Loan has a prepayment fee equal to 2% of the total commitment, which is due only if the 2019 Term Loan is prepaid prior to the scheduled maturity date for any reason. As of September 30, 2020, the effective interest rate under the 2019 Term Loan was 7.61% and the outstanding balance was \$6.0 million. The 2019 Term Loan matures on June 1, 2023.

In conjunction with entering into the 2019 Credit Facility, on August 5, 2019, the Company and SVB amended and restated the warrant issued to SVB in connection with the first amendment to the 2017 Credit Facility, which was a warrant to purchase 9,375 shares of the Company's common stock at an exercise price of \$8.91 per share, to add an option by SVB to put the warrant back to the Company for \$50,000 upon expiration or a liquidity event, to be prorated if SVB exercises a portion of the warrant. The warrant expires on July 6, 2023. The warrant is classified as a liability and recorded at fair value within other liabilities in the Company's condensed balance sheet. Due to the put right, the warrant is subject to fair value remeasurement at each subsequent reporting date until the exercise or expiration of the warrant. Any resulting change in the fair value of the warrant will be recorded as other (expense) income, net in the Company's condensed statement of operations and comprehensive loss. The Company recognized other income of \$5,000 and other expense of \$2,000 for the three and nine months ended September 30, 2020, respectively.

In conjunction with entering into the first amendment to the 2019 Credit Facility, on July 15, 2020, the Company issued a warrant to SVB to purchase 21,500 shares of the Company's common stock at an exercise price of \$0.01 per share. The warrant expires on July 15, 2025. The warrant is classified as equity and was recorded as a debt discount that will be amortized to interest expense using the effective interest method. The fair value of the warrant was \$152,000 on the date of issuance using the Black-Scholes option-pricing model.

Collateral for the 2019 Credit Facility includes all of the Company's assets except for intellectual property. The Company is required to comply with certain covenants under the 2019 Credit Facility, including requirements to maintain a minimum cash balance and availability under the Line of Credit, and restrictions on certain actions without the consent of the lender, such as limitations on its ability to engage in mergers or acquisitions, sell assets, incur indebtedness or grant liens or negative pledges on its assets, make loans or make other investments. Under these covenants, the Company is prohibited from paying cash dividends with respect to its capital stock. The Company was in compliance with all covenants at September 30, 2020. The 2019 Credit Facility contains a material adverse effect clause which provides that an event of default will occur if, among other triggers, an event occurs that could reasonably be expected to result in a material adverse effect on the Company's business, operations or condition, or on the Company's ability to perform its obligations under the term loan. As of September 30, 2020, management does not believe that it is probable that the clause will be triggered within the next 12 months, and therefore the term loan is classified as long-term debt.

The carrying value of the Company's 2019 Credit Facility at September 30, 2020 was as follows (in thousands):

	<b>Current Portion</b>	<b>Long-Term Debt</b>	<b>Total</b>
Credit Facility	\$ 3,800	\$ 4,620	\$ 8,420
Unamortized debt discounts	(186)	(337)	(523)
Net carrying value	<u>\$ 3,614</u>	<u>\$ 4,283</u>	<u>\$ 7,897</u>

The carrying value of the Company's 2019 Credit Facility at December 31, 2019 was as follows (in thousands):

	Current Portion	Long-Term Debt	Total
Credit Facility	\$ 800	\$ 7,620	\$ 8,420
Unamortized debt discounts	(130)	(471)	(601)
Net carrying value	<u>\$ 670</u>	<u>\$ 7,149</u>	<u>\$ 7,819</u>

The table below includes the principal repayments due under the 2019 Credit Facility (in thousands):

	Principal Repayment as of September 30, 2020
2020 (remaining three months)	\$ —
2021	4,400
2022	2,400
2023	1,620
Total principal repayments	<u>\$ 8,420</u>

## 7. Stockholders' Equity

### *At-the-Market Sales Agreement*

In August 2019, the Company entered into an Open Market Sale Agreement, or the 2019 Sales Agreement, with Jefferies, LLC, or Jefferies, for the offer and sale of shares of its common stock having an aggregate offering of up to \$25.0 million from time to time through Jefferies, acting as the Company's sales agent. The issuance and sale of these shares by the Company pursuant to the 2019 Sales Agreement are deemed an "at-the-market" offering under the Securities Act of 1933, as amended. Under the 2019 Sales Agreement, the Company agreed to pay Jefferies a commission of up to 3% of the gross proceeds of any sales made pursuant to the Sales Agreement. During the nine months ended September 30, 2020, the Company received net proceeds of \$2.1 million after deducting commissions and expenses payable by the Company, from the sale of 468,427 shares of common stock pursuant to the 2019 Sales Agreement. The ATM sales were suspended in March 2020. As of September 30, 2020, the Company had an aggregate of \$17.7 million available for future sales under the 2019 Sales Agreement.

## 8. Stock-Based Compensation

The following table summarizes the stock option and award activity for the nine months ended September 30, 2020:

	Options and Awards Available for Grant	Options Outstanding		Aggregate Intrinsic Value (In thousands)	
		Number of Options	Weighted- Average Exercise Price Per Share		Weighted- Average Remaining Contractual Life (years)
Balance—December 31, 2019	638,227	1,931,903	\$ 7.17	6.5	\$ 188
Authorized	542,452				
Restricted stock units granted	(456,679)				
Restricted stock units cancelled/forfeited	33,478				
Options granted	(844,455)	844,455	\$ 2.59		
Options exercised		(221,298)	\$ 5.22		\$ 351
Options cancelled/forfeited	235,355	(254,608)	\$ 7.79		
Balance—September 30, 2020	<u>148,378</u>	<u>2,300,452</u>	\$ 5.61	8.1	\$ 2,609
Options exercisable—September 30, 2020		<u>990,885</u>	\$ 7.39	6.9	\$ 94

The total grant date fair value of options vested was \$ 438,000 and \$557,000 during the three months ended September 30, 2020 and 2019, respectively, and \$1.8 million during both the nine months ended September 30, 2020 and 2019.

The weighted-average grant date fair value of employee options granted was \$3.62 and \$4.49 per share during the three months ended September 30, 2020 and 2019, respectively, and \$1.71 and \$4.11 per share during the nine months ended September 30, 2020 and 2019, respectively.

### **2016 Employee Stock Purchase Plan**

In January 2020, there was an increase of 180,817 shares reserved for issuance under the Company's Employee Stock Purchase Plan (ESPP) pursuant to the terms of the ESPP. The Company had 554,343 shares available for future issuance under the Company's ESPP as of September 30, 2020. Employees purchased 22,474 shares for \$50,000 during the nine months ended September 30, 2020. Employees purchased 22,405 shares for \$130,000 during the nine months ended September 30, 2019.

### **Restricted Stock Units**

The following table summarizes Restricted Stock Units (RSUs) activity for the nine months ended September 30, 2020:

	<b>RSUs Outstanding</b>	
	<b>Number of Restricted Stock Units</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Balance—December 31, 2019	211,962	\$ 6.97
Granted	456,679	4.50
Vested	(176,839)	6.18
Cancelled/forfeited	(33,478)	6.50
Balance—September 30, 2020	458,324	\$ 4.85

The fair value of RSUs is determined on the date of grant based on the market price of the Company's common stock on that date. As of September 30, 2020, there was \$1.7 million of unrecognized stock-based compensation expense related to RSUs to be recognized over a weighted-average period of 2.3 years.

### **Stock-based Compensation Expense**

As of September 30, 2020, there was \$3.6 million of total unrecognized stock-based compensation expense related to unvested options which is expected to be recognized over a weighted-average period of 2.9 years. Compensation cost capitalized within inventory at September 30, 2020 and at December 31, 2019 was not material.

## **9. Significant Agreements**

### **GLOBALFOUNDRIES, Inc. Joint Development Agreement**

Since October 17, 2014, the Company has participated in a joint development agreement (JDA) with GLOBALFOUNDRIES Inc. (GF), a semiconductor foundry, for the joint development of Spin-transfer Torque MRAM (STT-MRAM), technology to produce a family of discrete and embedded MRAM technologies. The term of the agreement is until the completion, termination, or expiration of the last statement of work entered into pursuant to the joint development agreement. The agreement was extended on December 31, 2019 to include a new phase of support for 12nm MRAM development.

Under the current JDA extension terms, each party licenses its relevant intellectual property to the other party. For certain jointly developed works, the parties have agreed to follow an invention allocation procedure to determine ownership. In addition, GF possesses the exclusive right to manufacture the Company's discrete and embedded STT-MRAM devices developed pursuant to the agreement until the earlier of three years after the qualification of the MRAM

device for a particular technology node or four years after the completion of the relevant statement of work under which the device was developed. For the same exclusivity period associated with the relevant device, GF agreed not to license intellectual property developed in connection with the JDA to named competitors of the Company.

Generally, unless otherwise specified in the agreement or a statement of work, the Company and GF share project costs, which do not include personnel or production qualification costs, under the JDA. If GF manufactures, sells or transfers to customers wafers containing production quantified STT-MRAM devices that utilize certain design information, GF will be required to pay the Company a royalty.

The Company incurred project costs of \$0.4 million and \$1.6 million for the three and nine months ended September 30, 2019, respectively, which were recognized in research and development expense. No project costs were incurred during the three and nine months ended September 30, 2020. The Company entered into a Statement of Work (SOW) and an Amendment to the SOW, under the JDA with GF effective August 2016 and June 2018, respectively.

#### ***Silterra Malaysia Sdn. Bhd. Joint Collaboration Agreement***

In September 2018, the Company entered into a Joint Collaboration Agreement (JCA) with Silterra Malaysia Sdn. Bhd., and another third party. The JCA will create additional manufacturing capacity for the Company's Toggle MRAM products. We had previously anticipated initial production starting in 2020. However, as a result of recent delays, we now anticipate initial production to start some time in 2021. Under the JCA, the Company is required to pay non-recurring engineering costs of \$1.0 million. As of September 30, 2020, the Company has paid \$600,000 of these JCA costs. There were no JCA costs paid during the three and nine months ended September 30, 2020. We do not expect to incur additional JCA costs for the remainder of 2020.

#### **10. Net Loss Per Common Share**

The following outstanding shares of potentially dilutive securities have been excluded from diluted net loss per common share for the periods presented, because their inclusion would be anti-dilutive:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Options to purchase common stock	2,300,452	1,907,712	2,300,452	1,907,712
Restricted stock units	458,324	219,220	458,324	219,220
Common stock warrants	49,336	27,836	49,336	27,836
Total	<u>2,808,112</u>	<u>2,154,768</u>	<u>2,808,112</u>	<u>2,154,768</u>

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*You should read the following discussion and analysis of our financial condition and results of operations together with our condensed financial statements and related notes included in Part I, Item 1 of this report and with our audited financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2019.*

### **Forward-Looking Statements**

*This discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). Forward-looking statements are identified by words such as “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “could,” “potentially” or the negative of these terms or similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other “forward-looking” information. These statements relate to our future plans, strategies, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this report in Part II, Item 1A — “Risk Factors,” and elsewhere in this report, as well as in our other filings with the Securities and Exchange Commission (SEC). Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. These statements, like all statements in this report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.*

### **Overview**

Everspin is a pioneer in the successful commercialization of Magnetoresistive Random Access Memory (MRAM) technology. Our portfolio of MRAM technologies, including Toggle MRAM and Spin-transfer Torque MRAM (STT-MRAM), is delivering superior performance, persistence and reliability in non-volatile memories that transform how mission-critical data is protected against power loss. With over 10 years of MRAM technology and manufacturing leadership, our memory solutions deliver significant value to our customers in key markets such as industrial, medical, automotive/transportation, aerospace and data center. We are the leading supplier of discrete MRAM components and a successful licensor of our broad portfolio of related technology intellectual property.

We sell our products directly and through our established distribution channels to industry-leading original equipment manufacturers (OEMs) and original design manufacturers (ODMs).

We manufacture our MRAM products using both captive and third-party manufacturing capabilities. We purchase industry-standard complementary metal-oxide semiconductor (CMOS) wafers from semiconductor foundries and perform back end of line (BEOL) processing that includes our magnetic-bit technology at our 200mm fabrication facility in Chandler, Arizona. We also manufacture full-flow 300mm CMOS wafers with our STT-MRAM magnetic-bit technology integrated in BEOL as part of our strategic relationship with GLOBALFOUNDRIES.

### **Key Metrics**

We monitor a variety of key financial metrics to help us evaluate trends, establish budgets, measure the effectiveness of our business strategies and assess operational efficiencies. These financial metrics include revenue, gross margin, operating expenses and operating income determined in accordance with GAAP. Additionally, we monitor and project cash flow to determine our sources and uses for working capital to fund our operations. We also monitor Adjusted EBITDA, a non-GAAP financial measure, and design wins. We define Adjusted EBITDA as net income or loss adjusted for interest expense, taxes, depreciation and amortization, stock-based compensation expense, and restructuring costs, if any.

**ADJUSTED EBITDA.** Our management and board of directors use Adjusted EBITDA to understand and evaluate our operating performance and trends, to prepare and approve our annual budget and to develop short-term and long-term operating and financing plans. Accordingly, we believe that Adjusted EBITDA provides useful information for



investors in understanding and evaluating our operating results in the same manner as our management and our board of directors. Adjusted EBITDA was \$(2.0) million and \$(2.2) million for the three months ended September 30, 2020 and 2019, respectively. Adjusted EBIDTA was \$(2.2) million and \$(7.3) million for the nine months ended September 30, 2020 and 2019, respectively. Adjusted EBITDA is a non-GAAP financial measure and should be considered in addition to, not as superior to, or as a substitute for, net income (loss) reported in accordance with GAAP. The following table presents a reconciliation of net loss, the most directly comparable GAAP measure, to Adjusted EBIDTA for the periods indicated:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Adjusted EBITDA reconciliation:</b>				
Net loss	\$ (3,895)	\$ (3,663)	\$ (6,921)	\$ (11,589)
Depreciation and amortization	799	421	1,612	1,297
Stock-based compensation expense	910	895	2,633	2,397
Interest expense	157	170	501	567
Adjusted EBITDA	<u>\$ (2,029)</u>	<u>\$ (2,177)</u>	<u>\$ (2,175)</u>	<u>\$ (7,328)</u>

*Design wins.* To continue to grow our revenue, we must continue to achieve design wins for our MRAM products. We consider a design win to occur when an OEM or contract manufacturer notifies us that it has qualified one of our products as a component in a product or system for production. Because the life cycles for our customers' products can last for many years, if these products have successful commercial introductions, we expect to continue to generate revenues over an extended period of time for each successful design win. New design wins in the first three quarters of 2020 were 37, 43, and 52, respectively, compared to 14, 13, and 22 in the first three quarters of 2019, respectively.

#### **Effect of the COVID-19 Pandemic on our Business**

The recent novel coronavirus (COVID-19) outbreak has resulted in government authorities around the world implementing numerous measures to try to reduce the spread of COVID-19, such as travel bans and restrictions, quarantines, "shelter-in-place," "stay-at-home," total lock-down orders, business limitations or shutdowns and similar orders. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation, and initially created significant volatility and disruption of financial markets.

Overall, our business remains operational in the midst of the pandemic. However, as a result of the COVID-19 outbreak and the related responses from government authorities, our business, results of operations and financial condition have been, and continue to be, adversely impacted. For example, we have experienced electronics supply chain and demand disruptions from extended factory shutdowns, particularly in some Asian countries, which created unusual order patterns, and subsequently slowed Toggle demand, particularly from our industrial customers. We continue to see an impact as reflected in reduced demand from some customers and distributors. While we are working closely with our manufacturing partners and suppliers to support demand for our products, the full impact on our demand from customers remains unknown. Management is thus planning for a broad range of possible demand outcomes in an effort to ensure the success of our business under a variety of end market conditions.

Further, in an effort to protect the health and safety of our employees, we transitioned most of our office and support employees and contractors to working from home; suspended all non-essential business travel; and implemented social distancing guidelines for our employees and contractors who must work in our manufacturing and laboratory locations. Consequently, the remote working environment we have implemented for our employees has adversely impacted manufacturing yield improvement projects given delays in data gathering, analysis and inefficiencies of teams solving technical problems via remote-only means, which impacts our cost of sales.

We will continue to monitor the situation and take additional actions as warranted. These actions may include further altering our operations in order to protect the best interests of our employees, customers and suppliers, and to comply with government requirements, while also planning and executing our business to best support our customers, suppliers, and partners.

The ultimate extent of the impact of the COVID-19 pandemic on our business, results of operations and financial condition will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted, including, but not limited to, the duration and spread of the COVID-19 outbreak, its severity, the actions to contain the virus or treat its impact and how quickly and to what extent normal economic and operating conditions can resume. Accordingly, our current results and financial condition discussed herein may not be indicative of future operating results and trends. See “Risk Factors” in Part II, Item 1A of this report for additional risks we face due to the COVID-19 pandemic.

## Results of Operations

The following table sets forth our results of operations for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	September 30,		September 30,		September 30,		September 30,	
	2020	2019	2020	2019	2020	2019	2020	2019
	(In thousands)		(As a percentage of revenue)		(In thousands)		(As a percentage of revenue)	
Product sales	\$ 9,577	\$ 8,370	95 %	91 %	\$ 30,139	\$ 25,396	94 %	91 %
Licensing, royalty, and other revenue	543	808	5	9	1,915	2,454	6	9
Total revenue	10,120	9,178	100	100	32,054	27,850	100	100
Cost of sales	7,791	4,824	77	53	19,183	14,692	60	53
Gross profit	2,329	4,354	23	47	12,871	13,158	40	47
Operating expenses:								
Research and development	2,579	3,395	26	37	8,383	10,912	26	39
General and administrative	2,549	3,050	25	33	7,797	9,501	24	34
Sales and marketing	912	1,491	9	16	3,071	4,094	10	15
Total operating expenses	6,040	7,936	60	86	19,251	24,507	60	88
Loss from operations	(3,711)	(3,582)	(37)	(39)	(6,380)	(11,349)	(20)	(41)
Interest expense	(157)	(170)	(2)	(2)	(501)	(567)	(2)	(2)
Other (expense) income, net	(27)	89	—	1	(40)	327	—	1
Net loss	<u>\$ (3,895)</u>	<u>\$ (3,663)</u>	<u>(39)%</u>	<u>(40)%</u>	<u>\$ (6,921)</u>	<u>\$ (11,589)</u>	<u>(22)%</u>	<u>(42)%</u>

### Comparison of the three months ended September 30, 2020 and 2019

#### Revenue

We generated 53% and 62% of our revenue from products sold through distributors for the three months ended September 30, 2020 and 2019, respectively.

In addition to selling our products to our distributors, we maintain a direct selling relationship, for strategic purposes, with several key customer accounts. We have organized our sales team and representatives into three primary regions: North America; Europe, Middle East and Africa (EMEA); and Asia-Pacific and Japan (APJ). We recognize

revenue by geography based on the region in which our products are sold, and not to where the end products in which they are assembled are shipped. Our revenue by region for the periods indicated was as follows (in thousands):

	<b>Three Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
North America	\$ 2,109	\$ 1,527
EMEA	859	2,048
APJ	7,152	5,603
Total revenue	<u>\$ 10,120</u>	<u>\$ 9,178</u>

	<b>Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>%</b>
	<b>(Dollars in thousands)</b>			
Product sales	\$ 9,577	\$ 8,370	\$ 1,207	14.4 %
Licensing, royalty, and other revenue	543	808	(265)	(32.8)%
Total revenue	<u>\$ 10,120</u>	<u>\$ 9,178</u>	<u>\$ 942</u>	<u>10.3 %</u>

Total revenue increased by \$0.9 million, or 10.3%, from \$9.2 million during the three months ended September 30, 2019, to \$10.1 million during the three months ended September 30, 2020. Product sales increased by \$1.2 million, or 14.4%, from \$8.4 million to \$9.6 million. The increase was driven by sales of STT MRAM.

Licensing, royalty, and other revenue is a highly variable revenue item characterized by a small number of transactions annually with revenue based on size and terms of each transaction.

#### *Cost of Sales and Gross Margin*

	<b>Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>%</b>
	<b>(Dollars in thousands)</b>			
Cost of sales	\$ 7,791	\$ 4,824	\$ 2,967	61.5 %
Gross margin	23.0 %	47.4 %		

Cost of sales increased by \$3.0 million, or 61.5%, from \$4.8 million during the three months ended September 30, 2019 to \$7.8 million during the three months ended September 30, 2020. The increase was due to a higher volume of units produced and sold, as well as a \$1.7 million reserve charge for excess and obsolete inventory. Management performs a quarterly assessment of inventory on hand and expected future demand. As part of our third quarter 2020 evaluation, we identified increasing economic uncertainty and declining forecasted demand for certain products, as well as the loss of certain customer designs during the period.

Gross margin decreased from 47.4% during the three months ended September 30, 2019 to 23.0% during the three months ended September 30, 2020. The decrease in gross margin was due primarily to a reserve charge for excess and obsolete inventory.

#### *Operating Expenses*

Our operating expenses consist of research and development, general and administrative and sales and marketing expenses. Personnel-related expenses, including salaries, benefits, bonuses and stock-based compensation, are among the most significant component of each of our operating expense categories.

*Research and Development Expenses.* Our research and development expenses consist primarily of personnel-related expenses for the design and development of our products and technologies, development wafers required to validate and characterize our technology, and expenses associated with our joint development activities. Research and development expenses also include consulting services, circuit design costs, materials and laboratory supplies,

fabrication and new packaging technology, and an allocation of related facilities and equipment costs. We recognize research and development expenses as they are incurred.

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(Dollars in thousands)			
Research and development	\$ 2,579	\$ 3,395	\$ (816)	(24.0)%
Research and development as a % of revenue	26 %	37 %		

Research and development expenses decreased by \$0.8 million, or 24%, from \$3.4 million during the three months ended September 30, 2019 to \$2.6 million during the three months ended September 30, 2020. The decrease was due to a \$0.4 million decrease in expenses incurred in connection with our joint development agreement with GLOBALFOUNDRIES and a \$0.3 million decrease in employee and contract labor related costs due to a decrease in headcount as a result of our corporate restructuring plan completed in January 2020.

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(Dollars in thousands)			
General and administrative	\$ 2,549	\$ 3,050	\$ (501)	(16.4)%
General and administrative as a % of revenue	25 %	33 %		

*General and Administrative Expenses.* General and administrative expenses decreased by \$0.5 million or 16.4%, from \$3.0 million during the three months ended September 30, 2019, to \$2.5 million during the three months ended September 30, 2020. The decrease was primarily due to a \$0.4 million decrease in employee and contract labor related costs due to a decrease in headcount as a result of our corporate restructuring plan completed in January 2020.

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(Dollars in thousands)			
Sales and marketing	\$ 912	\$ 1,491	\$ (579)	(38.8)%
Sales and marketing as a % of revenue	9 %	16 %		

*Sales and Marketing Expenses.* Sales and marketing expenses decreased by \$0.6 million or 38.8%, from \$1.5 million during the three months ended September 30, 2019, to \$0.9 million during the three months ended September 30, 2020. The decrease was primarily due to a decrease in employee and contract labor related costs due to a decrease in headcount as a result of our corporate restructuring plan completed in January 2020.

*Interest Expense*

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(Dollars in thousands)			
Interest expense	\$ 157	\$ 170	\$ (13)	(7.6)%

Interest expense remained relatively flat during the three months ended September 30, 2020, compared to the three months ended September 30, 2019. The slight decrease was partially due to a decrease in non-cash interest related to the amortization of debt discounts derived from the issuance of a warrant, the end of term fee and debt issuance costs and a decrease in interest paid on our credit facilities.

*Other (Expense) Income, Net*

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(Dollars in thousands)			
Other (expense) income, net	\$ (27)	\$ 89	\$ (116)	(130.3)%

Other (expense) income, net decreased by \$0.1 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019. The change was primarily due to a decrease in interest income earned on our cash balances during the quarter from the lower interest rate environment.

**Comparison of the nine months ended September 30, 2020 and 2019**

Revenue

We generated 59% and 66% of our revenue from products sold through distributors for the nine months ended September 30, 2020 and 2019, respectively.

Our revenue by region for the periods indicated was as follows (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
North America	\$ 5,033	\$ 7,244
EMEA	4,586	6,776
APJ	22,435	13,830
Total revenue	<u>\$ 32,054</u>	<u>\$ 27,850</u>

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>Amount</u>	<u>%</u>
	<u>(Dollars in thousands)</u>			
Product sales	\$ 30,139	\$ 25,396	\$ 4,743	18.7 %
Licensing, royalty, and other revenue	1,915	2,454	(539)	(22.0)%
Total revenue	<u>\$ 32,054</u>	<u>\$ 27,850</u>	<u>\$ 4,204</u>	<u>15.1 %</u>

Total revenue increased by \$4.2 million, or 15.1%, from \$27.9 million during the nine months ended September 30, 2019 to \$32.1 million during the nine months ended September 30, 2020. Product sales increased by \$4.7 million, or 18.7%, from \$25.4 million to \$30.1 million. The increase was driven by sales of STT MRAM.

Licensing, royalty, and other revenue is a highly variable revenue item characterized by a small number of transactions annually with revenue based on size and terms of each transaction.

Cost of Sales and Gross Margin

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>Amount</u>	<u>%</u>
	<u>(Dollars in thousands)</u>			
Cost of sales	\$ 19,183	\$ 14,692	\$ 4,491	30.6 %
Gross margin	40.2 %	47.2 %		

Cost of sales increased by \$4.5 million, or 30.6%, from \$14.7 million during the nine months ended September 30, 2019 to \$19.2 million during the nine months ended September 30, 2020. The increase was due to a higher volume of units produced and sold, as well as a \$1.7 million reserve charge for excess and obsolete inventory. Management performs a quarterly assessment of inventory on hand and expected future demand. As part of our third quarter 2020 evaluation, we identified increasing economic uncertainty and declining forecasted demand for certain products, as well as the loss of certain customer designs during the period.

Gross margin decreased from 47.2% during the nine months ended September 30, 2019, to 40.2% during the nine months ended September 30, 2020. The decrease in gross margin was due primarily to a reserve charge for excess and obsolete inventory.

Operating Expenses

*Research and Development Expenses*

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>Amount</u>	<u>%</u>
	<u>(Dollars in thousands)</u>			
Research and development	\$ 8,383	\$ 10,912	\$ (2,529)	(23.2)%
Research and development as a % of revenue	26 %	39 %		

Research and development expenses decreased by \$2.5 million or 23.2%, from \$10.9 million during the nine months ended September 30, 2019, to \$8.4 million during the nine months ended September 30, 2020. The decrease was due to a \$1.6 million decrease in expenses incurred in connection with our joint development agreement with GLOBALFOUNDRIES due to less spending on STT-MRAM process and product development, and a \$0.9 million decrease in employee and contract labor related costs due to a decrease in headcount as a result of our corporate restructuring plan completed in January 2020.

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>Amount</u>	<u>%</u>
	<u>(Dollars in thousands)</u>			
General and administrative	\$ 7,797	\$ 9,501	\$ (1,704)	(17.9)%
General and administrative as a % of revenue	24 %	34 %		

*General and Administrative Expenses.* General and administrative expenses decreased by \$1.7 million, or 17.9%, from \$9.5 million during the nine months ended September 30, 2019 to \$7.8 million during the nine months ended September 30, 2020. The decrease was primarily due to a \$1.1 million decrease in employee and contract labor related costs due to a decrease in headcount as a result of our corporate restructuring plan completed in January 2020 and a \$0.4 million decrease in professional service related costs.

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>Amount</u>	<u>%</u>
	<u>(Dollars in thousands)</u>			
Sales and marketing	\$ 3,071	\$ 4,094	\$ (1,023)	(25.0)%
Sales and marketing as a % of revenue	10 %	15 %		

*Sales and Marketing Expenses.* Sales and marketing expenses decreased by \$1.0 million or 25.0%, from \$4.1 million during the nine months ended September 30, 2019, to \$3.1 million during the nine months ended September 30, 2020. The decrease was primarily due to a decrease in employee and contract labor related costs due to a decrease in headcount as a result of our corporate restructuring plan completed in January 2020.

Interest Expense

	<u>Nine Months Ended September 30,</u>		<u>Change</u>	
	<u>2020</u>	<u>2019</u>	<u>Amount</u>	<u>%</u>
	<u>(Dollars in thousands)</u>			
Interest expense	\$ 501	\$ 567	\$ (66)	(11.6)%

Interest expense remained relatively flat during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2020. The slight decrease was partially due to a decrease in non-cash interest related to the amortization of debt discounts derived from the issuance of a warrant, the end of term fee and debt issuance costs and a decrease in interest paid on our credit facilities as a result of a lower outstanding principal balance under our 2019 credit facilities.

Other (Expense) Income, Net

	Nine Months Ended			
	September 30,		Change	
	2020	2019	Amount	%
	(Dollars in thousands)			
Other (expense) income, net	\$ (40)	\$ 327	\$ (367)	(112.2)%

Other (expense) income, net decreased by \$0.4 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The change was primarily due to a decrease in interest income earned on our cash balances during the period.

**Liquidity and Capital Resources**

We have generated significant losses since our inception and had an accumulated deficit of \$155.6 million as of September 30, 2020, compared to \$148.7 million as of December 31, 2019. We have historically financed our operations primarily through the sale of our common stock in our initial public offering (IPO) and follow-on public offering, sales of our common stock under our at-the-market (ATM) sales agreement, sales of our redeemable convertible preferred stock, debt financing and the sale of our products. As of September 30, 2020, we had \$13.9 million of cash and cash equivalents, compared to \$14.5 million as of December 31, 2019.

We believe that our existing cash and cash equivalents as of September 30, 2020, coupled with the amount available under our line of credit entered into in August 2019, our anticipated growth and sales levels will be sufficient to meet our anticipated cash requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our revenue growth rate, our ability to control operating expenses and achieve our cost reduction targets.

**2019 Credit Facility**

In May 2017, we executed a Loan and Security Agreement (2017 Credit Facility) with Silicon Valley Bank (SVB) for a \$12.0 million term loan, which we subsequently amended in January 2019 and June 2019. In August 2019, we executed an Amended and Restated Loan and Security Agreement (2019 Credit Facility), which amended and restated the 2017 Credit Facility, providing for a formula revolving line of credit (Line of Credit) and a term loan (2019 Term Loan) with SVB to refinance in full the outstanding principal balance of \$8.0 million under the 2017 Credit Facility.

In July 2020, we executed the first amendment to the 2019 Credit Facility with SVB. The amendment, among other things, extended the initial 12 months interest-only period for the term loan to a 16 months interest-only period and lowered the floor interest rate. The floor interest rates for 2019 Term Loan and the Line of Credit Facility were reduced from 4.75% and 6.75% to 3.75 and 4.75%, respectively.

The amended Line of Credit allows for a maximum draw of \$5.0 million, subject to a formula borrowing base, has a two-year term and bears interest at a floating rate equal to the Wall Street Journal (WSJ) prime rate plus 1.5%, per annum, subject to a floor of 4.75%. At execution, \$2.0 million from the Line of Credit was used to refinance a portion of the outstanding balance of the 2017 Credit Facility, and \$3.0 million remains available under the Line of Credit, subject to borrowing base availability. As of September 30, 2020, the effective interest rate under the Line of Credit was 10.18% and the outstanding balance was \$2.0 million. The Line of Credit matures on August 5, 2021.

The amended 2019 Term Loan provides for a \$6.0 million term loan, which was used to refinance the remaining balance of the 2017 Credit Facility. The amended 2019 Term Loan has a term of 46 months, and a 16-month interest only period followed by 30 months of equal principal payments, plus accrued interest. The 2019 Term Loan bears interest at a floating rate equal to the WSJ prime rate minus 0.75%, subject to a floor of 3.75%. As of September 30, 2020, the effective interest rate under the 2019 Term Loan was 7.61% and the outstanding balance was \$6.0 million. The 2019 Term Loan matures on June 1, 2023.

Collateral for the 2019 Credit Facility includes all of our assets except for intellectual property. We are required to comply with certain covenants under the 2019 Credit Facility, including requirements to maintain a minimum cash balance and availability under the Line of Credit, and restrictions on certain actions without the consent of the lender, such as limitations on its ability to engage in mergers or acquisitions, sell assets, incur indebtedness or grant liens or negative pledges on its assets, make loans or make other investments. Under these covenants, the Company is prohibited from paying cash dividends with respect to its capital stock. We were in compliance with all covenants at September 30, 2020.

In conjunction with entering into the 2019 Credit Facility, on August 5, 2019, we and SVB amended and restated the warrant issued to SVB in connection with the first amendment to the 2017 Credit Facility, which was a warrant to purchase 9,375 shares of our common stock at an exercise price of \$8.91 per share, to add an option by SVB to put the warrant back to us for \$50,000 upon expiration or a liquidity event, to be prorated if SVB exercises a portion of the warrant. The warrant expires on July 6, 2023. Additionally, in conjunction with entering into the first amendment to the 2019 Credit Facility, on July 15, 2020, we issued a warrant to SVB to purchase 21,500 shares of our common stock at an exercise price of \$0.01 per share. The warrant expires on July 15, 2025.

For additional information about the 2019 Credit Facility, see Note 6 to our consolidated financial statements in Part I, Item 1 of this report.

#### ***At-the-Market Sales Agreement***

In August 2019, we entered into an open market sale agreement (2019 Sales Agreement) with Jefferies, LLC (Jefferies), for the offer and sale of shares of our common stock having an aggregate offering of up to \$25.0 million from time to time through Jefferies, acting as sales agent. The issuance and sale of these shares by us pursuant to the 2019 Sales Agreement were deemed an “at-the-market” offering under the Securities Act. Under the 2019 Sales Agreement, we agreed to pay Jefferies a commission of up to 3% of the gross proceeds of any sales made pursuant to the 2019 Sales Agreement. During the nine months ended September 30, 2020, we received net proceeds of \$2.1 million after deducting commissions and expenses payable by us, from the sale of 468,427 shares of common stock pursuant to the 2019 Sales Agreement. As of September 30, 2020, we had an aggregate of \$17.7 million available for future sales under the 2019 Sales Agreement. We have currently suspended sales under the 2019 Sales Agreement since March 2020.

#### ***Cash Flows***

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

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Cash used in operating activities	\$ (3,537)	\$ (5,455)
Cash used in investing activities	(307)	(566)
Cash provided by (used in) financing activities	3,284	(2,578)

#### ***Cash Flows From Operating Activities***

During the nine months ended September 30, 2020, cash used in operating activities was \$3.5 million, which consisted of a net loss of \$6.9 million, adjusted by non-cash charges of \$6.2 million and a change of \$2.8 million in our net operating assets and liabilities. The non-cash charges primarily consisted of stock-based compensation of \$2.6 million, depreciation and amortization of \$1.6 million, write down of obsolete inventory of \$1.7 million, and interest expense related to the amortization of debt issuance costs of \$0.2 million. The use of cash due to the change in our net operating assets and liabilities was primarily due to an increase of \$2.4 million in accounts receivable due to timing of cash receipts for outstanding balances and a decrease of \$0.7 million in accounts payable and accrued liabilities due to the timing of payments. These changes were partially offset by a \$0.4 million decrease in prepaid expenses and other current assets.

During the nine months ended September 30, 2019, cash used in operating activities was \$5.5 million, which consisted of a net loss of \$11.6 million, adjusted by non-cash charges of \$3.9 million and a change of \$2.2 million in our



net operating assets and liabilities. The non-cash charges primarily consisted of stock-based compensation of \$2.4 million, depreciation and amortization of \$1.3 million, and interest expense related to the amortization of debt issuance costs of \$0.2 million. The change in our net operating assets and liabilities was primarily due to a decrease in accounts receivable of \$2.0 million due to a lower sales volume and timing of cash receipts for outstanding balances, a decrease of \$0.8 million in inventory due to adjusting purchasing practices to meet expected sales volumes, a decrease of \$0.5 million in prepaid expenses due to the timing of payments, and an increase of \$0.5 million in accounts payable due to the timing of payments. These changes were partially offset by a decrease of \$1.4 million in accrued liabilities due to a decrease in accrued manufacturing costs and the timing of payments.

#### ***Cash Flows From Investing Activities***

Cash used in investing activities during the nine months ended September 30, 2020 and 2019, was \$0.3 million and \$0.6 million, respectively, for the purchase of manufacturing and computer equipment.

#### ***Cash Flows From Financing Activities***

Cash provided by financing activities during the nine months ended September 30, 2020 was \$3.3 million, consisting of \$2.1 million net proceeds from the sale of our common stock in our ATM offering under our 2019 Sales Agreement with Jefferies and \$1.2 million in proceeds from stock option exercises and purchase of shares in our employee stock purchase plan.

Cash used in financing activities during the nine months ended September 30, 2019 was \$2.6 million primarily consisting of \$4.8 million in payments of long-term debt and a \$0.1 million payment of debt issuance costs, offset in part by \$2.2 million in net proceeds from the sale of our common stock in our ATM offering under our 2019 Sales Agreement with Jefferies, and \$0.2 million in proceeds from stock option exercises and purchases of shares in our employee stock purchase plan.

#### **Off-Balance Sheet Arrangements**

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

#### **Critical Accounting Policies and Significant Judgements and Estimates**

Our condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of these condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. We base our estimates on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no changes to our critical accounting policies and estimates described in the Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 13, 2020, that have had a material impact on our condensed financial statements and related notes.

#### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not required for a smaller reporting company.

#### **Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures.*

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and

15d-15(e) under the Exchange Act), as of September 30, 2020, the end of the period covered by this quarterly report on Form 10-Q.

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2020.

*Material weakness in internal control over financial reporting.*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the preparation of our unaudited condensed financial statements for the quarter ended September 30, 2018, we identified an error in the previously filed financial statements that has caused us to restate and amend the our previously issued condensed financial statements and related financial information as of and for the three and six months ended June 30, 2018. This error was the result of a material weakness in our internal control over financial reporting, which we are remediating as of September 30, 2020 through the plan outlined below.

*Management's plan to remediate the material weakness.*

To remediate this material weakness, we took the following actions:

- We updated our information technology tools, including implementing a new ERP system as of January 1, 2020, to enhance our ability to monitor inventory and its movement through our manufacturing process and to provide checks and balances to third-party reports.
- We put in place management dashboard tools to alert all involved as to the performance of inventory against our business goals.
- We established multi-discipline processes to actively manage and make decisions regarding our inventory to support our business objectives.
- We provided additional training to our Operations Teams and updating procedures with our third-party Assembly Houses.
- We hired additional qualified personnel to assist management with its financial statement close process and provide oversight of our financial reporting.

We will continue to monitor stability of the platform and further enhance the business controls around inventory management. We continue to assess our accounting policies and internal controls documentation to ensure they are effective in helping us manage the business. Our management has concluded that the financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with GAAP.

*Changes in internal control over financial reporting.*

Except with respect to the remediation described above, there have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Inherent limitation on the effectiveness of internal control.*

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or

procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

We are not party to any material legal proceedings at this time. From time to time, we may become involved in various legal proceedings that arise in the ordinary course of our business.

### **ITEM 1A. Risk Factors**

*The following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by us or on our behalf. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we deem immaterial also may impair our business operations. If any of the following risks or such other risks actually occurs, our business could be harmed. In addition, many of the following risks and uncertainties may be exacerbated by the COVID-19 pandemic and any worsening of the global business and economic environment as a result.*

## **Risk Factors Related to Our Business and Our Industry**

***We may need additional funding and may be unable to raise capital when needed, which could force us to delay, reduce, or eliminate planned activities.***

Our total revenue was approximately \$32.1 million for the nine months ended September 30, 2020, and \$37.5 million for the year ended December 31, 2019, and, as of September 30, 2020, we had cash and cash equivalents of approximately \$13.9 million. Based on our current operating plan, we believe our cash and cash equivalents and availability under our revolving line of credit facility will be sufficient to fund our operating requirements for at least the next 12 months. However, our existing capital may be insufficient to meet our long-term requirements. We have no committed sources of funding other than our revolving line of credit facility and there is no assurance that additional funding will be available to us in the future or be secured on acceptable terms. If adequate funding is not available when needed, we may be forced to curtail operations, including our commercial activities and research and development programs, or cease operations altogether, file for bankruptcy, or undertake any combination of the foregoing. In such event, our stockholders may lose their entire investment in our company.

Further, we may need to raise additional funds through financings or borrowings in order to accomplish our long-term planned objectives. If we raise additional funds through issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

In addition, if we do not meet our payment obligations to third parties as they become due, we may be subject to litigation claims and our creditworthiness would be adversely affected. Even if we are successful in defending against these claims, litigation could result in substantial costs and would be a distraction to management, and may have other unfavorable results that could further adversely impact our financial condition. Stockholders should not rely on our balance sheet as an indication of the amount of proceeds that would be available to satisfy claims of creditors, and potentially be available for distribution to stockholders, in the event of liquidation.

***The recent novel coronavirus (COVID-19) global pandemic has adversely affected, and is expected to continue to adversely affect, our business, results of operations and financial condition. The widespread outbreak of any other illnesses or communicable diseases could also adversely affect our business, results of operations and financial condition.***

We could be negatively impacted by the widespread outbreak of an illness, any other communicable disease or any other public health crisis that results in economic and trade disruptions, including the disruption of global supply chains. In late 2019, there was an outbreak of a new strain of coronavirus, COVID-19, which has since spread globally. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. Further, the COVID-19 outbreak has resulted in government authorities around the world implementing numerous measures to try to reduce the spread of COVID-19, such as travel bans and restrictions, quarantines, “shelter-in-place,” “stay-at-home,” total lock-down orders, business limitations or shutdowns and similar orders. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation, and initially created significant volatility and disruption of financial markets.

As a result of the COVID-19 pandemic and the related responses from government authorities, our business, results of operations and financial condition have been, and continue to be, adversely impacted. For example, we have experienced electronics supply chain and demand disruptions from extended factory shutdowns, particularly in some Asian countries, which created unusual order patterns, and subsequently slowed Toggle demand, particularly from our industrial customers. We continue to see an impact as reflected in reduced demand from some customers and distributors. Further, in an effort to protect the health and safety of our employees, we: transitioned most of our office and support employees and contractors to working from home; suspended all non-essential business travel; and implemented social distancing guidelines for our employees and contractors who must work in our manufacturing and laboratory locations. Consequently, the remote working environment we have implemented for our employees has adversely impacted manufacturing yield improvement projects given delays in data gathering, analysis and inefficiencies of teams solving technical problems via remote-only means, which impacts our cost of sales.

Additionally, our business, results of operations and financial condition have been and may be further impacted in several ways, including, but not limited to, the following:

- further disruptions to our operations, including due to additional facility closures, restrictions on our operations and sales, marketing and distribution efforts and/or interruptions to our research and development activities, product development and other important business activities;
- further reduced demand for our products, particularly due to disruptions to the businesses and operations of our customers;
- interruptions, availability or delays in global shipping to transport our products;
- further slowdowns or stoppages in the supply chain for our products, in addition to higher costs;
- limitations on employee resources and availability, including due to sickness, government restrictions, the desire of employees to avoid contact with large groups of people or mass transit disruptions;
- greater difficulty in collecting customer receivables;
- a fluctuation in foreign currency exchange rates or interest rates could result from market uncertainties; and
- an increase in the cost or the difficulty to obtain debt or equity financing could affect our financial condition or our ability to fund operations or future investment opportunities.

Additionally, COVID-19 could impact our internal controls over financial reporting as a portion of our workforce is required to work from home and therefore new processes, procedures, and controls could be required to respond to changes in our business environment. Further, should any key employees become ill from COVID-19 and unable to work, the attention of the management team could be diverted.

Although we will continue to monitor the situation and take further actions, which may include further altering our operations, in order to protect the best interests of our employees, customers and suppliers and comply with government requirements, there is no certainty that such measures will be enough to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

Any of the foregoing could adversely affect our business, results of operations and financial condition. The potential effects of COVID-19 may also impact many of our other risk factors discussed in this “Risk Factors” section. The ultimate extent of the impact of the COVID-19 pandemic on our business, results of operations and financial condition will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted, including, but not limited to, the duration and spread of the COVID-19 outbreak, its severity, the actions to contain the virus or treat its impact and how quickly and to what extent normal economic and operating conditions can resume.

***We have a history of losses which may continue in the future, and we cannot be certain that we will achieve or sustain profitability.***

We have incurred net losses since our inception. We incurred net losses of \$14.7 million and \$6.9 million for the year ended December 31, 2019 and the nine months ended September 30, 2020, respectively. As of September 30, 2020, we had an accumulated deficit of \$155.6 million. While our products offer unique benefits over other industry memory technologies, the rate of adoption of our products and our ability to capture market share from legacy technologies is uncertain. Our revenue may also be adversely impacted by a number of other possible reasons, many of which are outside our control, including business conditions that adversely affect the semiconductor memory industry resulting in a decline in end market demand for our products, adverse impacts resulting from the COVID-19 pandemic, increased competition, or our failure to capitalize on growth opportunities. We also rely on achieving specific cost reduction targets that have uncertainty in their timing and magnitude. We may also incur unforeseen expenses in the ongoing operation of our business that cause us to exceed our operational spending plan. As a result, our ability to generate sufficient revenue growth and/or controlling expenses to transition to profitability and generate consistent positive cash flows is uncertain.

***The limited history of STT-MRAM adoption makes it difficult to evaluate our current business and future prospects.***

We have been in existence as a stand-alone company since 2008, when Freescale Semiconductor, Inc. (subsequently acquired by NXP Semiconductor) spun-out its MRAM business as Everspin. We have been shipping magnetoresistive random-access memory (MRAM) products since our incorporation in 2008. However, we only began to manufacture and ship our Spin Transfer Torque MRAM (STT-MRAM) products in the fourth quarter of 2017.

Our limited experience selling our STT-MRAM products, combined with the rapidly evolving and competitive nature of our market, makes it difficult to evaluate our current business and future prospects. In addition, we have limited insight into emerging trends that may adversely affect our business, financial condition, results of operations and prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including unpredictable and volatile revenue and increased expenses as we continue to grow our business. The viability and demand for our products may be affected by many factors outside of our control, such as the factors affecting the growth of the industrial, automotive, transportation, and data center market segments and changes in macroeconomic conditions. If we do not manage these risks and overcome these difficulties successfully, our business will suffer.

***We may be unable to match production with customer demand for a variety of reasons including our inability to accurately forecast customer demand or the capacity constraints of our suppliers, which could adversely affect our operating results.***

We make planning and spending decisions, including determining production levels, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of product demand and customer requirements. Our products are typically purchased pursuant to individual purchase orders. While our customers may provide us with their demand forecasts, they are not contractually committed to buy any quantity of products beyond purchase orders. Furthermore, many of our customers may increase, decrease, cancel or delay purchase orders already in place without significant penalty. The short-term nature of commitments by our customers and the possibility of unexpected changes in demand for their products reduce our ability to accurately estimate future customer requirements. On occasion, customers may require rapid increases in production, which can strain our resources, necessitate more onerous procurement commitments and reduce our gross margin. If we overestimate customer demand, we may purchase products that we may not be able to sell, which could result in decreases in our prices or write-downs of unsold inventory. Conversely, if we underestimate customer demand or if sufficient manufacturing capacity is unavailable, we could lose sales opportunities and could lose market share or damage our customer relationships. We manufacture MRAM products at our 200mm facility we lease in Chandler, Arizona and use a single foundry, GLOBALFOUNDRIES, for production of higher density products on advanced technology nodes, which may not have sufficient capacity to meet customer demand. The rapid pace of innovation in our industry could also render significant portions of our inventory obsolete. Excess or obsolete inventory levels could result in unexpected expenses or write-downs of inventory values that could adversely affect our business, operating results and financial condition.

***As we expand into new potential markets, we expect to face intense competition, including from our customers and potential customers, and may not be able to compete effectively, which could harm our business.***

We expect that our new and future MRAM products will be applicable to markets in which we are not currently operating. The markets in which we operate and may operate in the future are extremely competitive and are characterized by rapid technological change, continuous evolving customer requirements and declining average selling prices. We may not be able to compete successfully against current or potential competitors, which include our current or potential customers as they seek to internally develop solutions competitive with ours or as we develop products potentially competitive with their existing products. If we do not compete successfully, our market share and revenue may decline. We compete with large semiconductor manufacturers and designers and others, and our current and potential competitors have longer operating histories, significantly greater resources and name recognition and a larger base of customers than we do. This may allow them to respond more quickly than we can to new or emerging technologies or changes in customer requirements. In addition, these competitors may have greater credibility with our existing and potential customers. Some of our current and potential customers with their own internally developed solutions may choose not to purchase products from third-party suppliers like us.

***We rely on third parties to distribute, manufacture, package, assemble and test our products, which exposes us to a number of risks, including reduced control over manufacturing and delivery timing and potential exposure to price fluctuations, which could result in a loss of revenue or reduced profitability.***

Although we operate an integrated magnetic fabrication line located in Chandler, Arizona, we purchase wafers from third parties and outsource the manufacturing, packaging, assembly and testing of our products to third-party foundries and assembly and testing service providers. We use a single foundry, GLOBALFOUNDRIES Singapore Pte. Ltd., for production of higher density products on advanced technology nodes. Our primary product package and test operations are located in China, Taiwan and other Asian countries. We also use standard CMOS wafers from third-party foundries, which we process at our Chandler, Arizona, facility.

Relying on third-party distribution, manufacturing, assembly, packaging and testing presents a number of risks, including but not limited to:

- our interests could diverge from those of our foundries, or we may not be able to agree with them on ongoing development, manufacturing and operational activities, or on the amount, timing, or nature of further investments in our joint development;
- capacity and materials shortages during periods of high demand;
- reduced control over delivery schedules, inventories and quality;
- the unavailability of, or potential delays in obtaining access to, key process technologies;
- the inability to achieve required production or test capacity and acceptable yields on a timely basis;
- misappropriation of our intellectual property;
- the third party's ability to perform its obligations due to bankruptcy or other financial constraints;
- exclusive representatives for certain customer engagements;
- limited warranties on wafers or products supplied to us; and
- potential increases in prices.

Our manufacturing agreement with GLOBALFOUNDRIES includes a customary forecast and ordering mechanism for the supply of certain of our wafers, and we are obligated to order and pay for, and GLOBALFOUNDRIES is obligated to supply, wafers consistent with the binding portion of our forecast. However, our manufacturing arrangement is also subject to both a minimum and maximum order quantity that while we believe currently addresses our projected foundry capacity needs, may not address our maximum foundry capacity requirements in the future. We may also be obligated to pay for unused capacity if our demand decreases in the future, or if our estimates prove inaccurate. GLOBALFOUNDRIES also has the ability to discontinue its manufacture of any of our wafers upon due notice and completion of the notice period. This could cause us to have to find another foundry to manufacture those wafers or redesign our core technology and would mean that we may not have products to sell until such time. Any time spent engaging a new manufacturer or redesigning our core technology could be costly and time consuming and may allow potential competitors to take opportunities in the marketplace. Moreover, if we are unable to find another foundry to manufacture our products or if we have to redesign our core technology, this could cause material harm to our business and operating results.

If we need other foundries or packaging, assembly and testing contractors, or if we are unable to obtain timely and adequate deliveries from our providers, we might not be able to cost-effectively and quickly retain other vendors to satisfy our requirements. Because the lead-time needed to establish a relationship with a new third-party supplier could be several quarters, there is no readily available alternative source of supply for any specific component. In addition, the time and expense to qualify a new foundry could result in additional expense, diversion of resources or lost sales, any of which would negatively impact our financial results.

If any of our current or future foundries or packaging, assembly and testing subcontractors significantly increases the costs of wafers or other materials or services, interrupts or reduces our supply, including for reasons outside of their control, such as due to the COVID-19 pandemic, or if any of our relationships with our suppliers is terminated, our operating results could be adversely affected. Such occurrences could also damage our customer relationships, result in lost revenue, cause a loss in market share or damage our reputation.

***Our joint development agreement and strategic relationships involve numerous risks.***

We have entered into strategic relationships to manufacture products and develop new manufacturing process technologies and products. These relationships include our joint development agreement with GLOBALFOUNDRIES to develop advanced MTJ technology and STT-MRAM. These relationships are subject to various risks that could adversely affect the value of our investments and our results of operations. These risks include the following:

- our interests could diverge from those of our foundries, or we may not be able to agree with them on ongoing development, manufacturing and operational activities, or on the amount, timing, or nature of further investments in our joint development;
- we may experience difficulties in transferring technology to a foundry;
- we may experience difficulties and delays in getting to and/or ramping production at foundries;
- our control over the operations of foundries is limited;
- due to financial constraints, our joint development collaborators may be unable to meet their commitments to us and may pose credit risks for our transactions with them;
- due to differing business models or long-term business goals, our collaborators may decide not to join us in funding capital investment, which may result in higher levels of cash expenditures by us;
- our cash flows may be inadequate to fund increased capital requirements;
- we may experience difficulties or delays in collecting amounts due to us from our collaborators;
- the terms of our arrangements may turn out to be unfavorable;
- we are migrating toward a fabless model as 300mm production becomes required and this increases risks related to less control over our critical production processes; and
- changes in tax, legal, or regulatory requirements may necessitate changes in our agreements.

The term of the agreement, as amended, is the completion, termination, or expiration of the last statement of work entered into pursuant to the joint development agreement.

If our strategic relationships are unsuccessful, our business, results of operations, or financial condition may be materially adversely affected.

***The market for semiconductor memory products is characterized by declines in average selling prices, which we expect to continue, and which could negatively affect our revenue and margins.***

Our customers for some of our products may see the average selling price of competitive products decrease year-over-year and we expect this trend to continue. When such pricing declines occur, we may not be able to mitigate the effects by selling more or higher margin units, or by reducing our manufacturing costs. In such circumstances, our operating results could be materially and adversely affected. Our stand-alone and embedded MRAM products have experienced declining average selling prices over their life cycle. The rate of decline may be affected by a number of factors, including relative supply and demand, the level of competition, production costs and technological changes. As a result of the decreasing average selling prices of our products following their launch, our ability to increase or maintain our margins depends on our ability to introduce new or enhanced products with higher average selling prices and to



reduce our per-unit cost of sales and our operating costs. We may not be able to reduce our costs as rapidly as companies that operate their own manufacturing, assembly and testing facilities, and our costs may even increase because we rely in part on third parties to manufacture, assemble and test our products, which could also reduce our gross margins. In addition, our new or enhanced products may not be as successful or enjoy as high margins as we expect. If we are unable to offset any reductions in average selling prices by introducing new products with higher average selling prices or reducing our costs, our revenue and margins will be negatively affected and may decrease.

The semiconductor memory market is highly cyclical and has experienced severe downturns in the past, generally as a result of wide fluctuations in supply and demand, constant and rapid technological change, continuous new product introductions and price erosion. During downturns, periods of intense competition, or the presence of oversupply in the industry, the selling prices for our products may decline at a high rate over relatively short time periods as compared to historical rates of decline. We are unable to predict selling prices for any future periods and may experience unanticipated, sharp declines in selling prices for our products.

***Unfavorable economic and market conditions, domestically and internationally, may adversely affect our business, financial condition, results of operations and cash flows.***

We have significant customer sales both in the United States and internationally. We also rely on domestic and international suppliers, manufacturing partners and distributors. We are therefore susceptible to adverse U.S. and international economic and market conditions. If any of our manufacturing partners, customers, distributors or suppliers experience slowdowns in their business, serious financial difficulties or cease operations, including as a result of the COVID-19 pandemic, our business will be adversely affected. In addition, the adverse impact of an unfavorable economy may adversely impact consumer spending, which may adversely impact our customers' spending and demand for our products.

***We must continuously develop new and enhanced products, and if we are unable to successfully market our new and enhanced products for which we incur significant expenses to develop, our results of operations and financial condition will be materially adversely affected.***

To compete effectively in our markets, we must continually design, develop and introduce new and improved technology and products with improved features in a cost-effective manner in response to changing technologies and market demand. This requires us to devote substantial financial and other resources to research and development. We are developing new technology and products, which we expect to be one of the drivers of our revenue growth in the future. We also face the risk that customers may not value or be willing to bear the cost of incorporating our new and enhanced products into their products, particularly if they believe their customers are satisfied with current solutions. Regardless of the improved features or superior performance of our new and enhanced products, customers may be unwilling to adopt our solutions due to design or pricing constraints, or because they do not want to rely on a single or limited supply source. Because of the extensive time and resources that we invest in developing new and enhanced products, if we are unable to sell customers our new products, our revenue could decline and our business, financial condition, results of operations and cash flows would be negatively affected. For example, if we are unable to generate more customer adoption of our 1Gb product and address new growth opportunities with subsequent STT-MRAM products, we may not be able to materially increase our revenue. If we are unable to successfully develop and market our new and enhanced products that we have incurred significant expenses developing, our results of operations and financial condition will be materially and adversely affected.

***Our success and future revenue depend on our ability to secure design wins and on our customers' ability to successfully sell the products that incorporate our solutions. Securing design wins is a lengthy, expensive and competitive process, and may not result in actual orders and sales, which could cause our revenue to decline.***

We sell to customers, including original equipment manufacturers (OEMs) and original design manufacturers (ODMs), that incorporate MRAM into their products. A design win occurs after a customer has tested our product, verified that it meets the customer's requirements and qualified our solutions for their products. We believe we are dependent, among other things, on the adoption of our 256Mb and 1Gb MRAM products by our customers to secure design wins. Our customers may need several months to years to test, evaluate and adopt our product and additional time to begin volume production of the product that incorporates our solution. Due to this generally lengthy design cycle, we may experience significant delays from the time we increase our operating expenses and make investments in our products to the time that we generate revenue from sales of these products. Moreover, even if a customer selects our

solution, we cannot guarantee that this will result in any sales of our products, as the customer may ultimately change or cancel its product plans, or efforts by our customer to market and sell its product may not be successful. We may not generate any revenue from design wins after incurring the associated costs, which would cause our business and operating results to suffer.

If a current or prospective customer incorporates a competitor's solution into its product, it becomes significantly more difficult for us to sell our solutions to that customer because changing suppliers involves significant time, cost, effort and risk for the customer even if our solutions are superior to other solutions and remain compatible with their product design. Our ability to compete successfully depends on customers viewing us as a stable and reliable supplier to mission critical customer applications when we have less production capacity and less financial resources compared to most of our larger competitors. If current or prospective customers do not include our solutions in their products and we fail to achieve a sufficient number of design wins, our results of operations and business may be harmed.

***The loss of one or several of our customers or reduced orders or pricing from existing customers may have a significant adverse effect on our operations and financial results.***

We have derived and expect to continue to derive a significant portion of our revenues from a small group of customers during any particular period due in part to the concentration of market share in the semiconductor industry. Our four largest end customers together accounted for 57.7% of our total revenue for the nine months ended September 30, 2020, and one of these customers accounted for more than 10% of our revenue during that period. Our four largest end customers together accounted for 22% of our total revenue for the year ended December 31, 2019, and one of these customers individually accounted for more than 10% of our total revenue during the period. The loss of a significant customer, a business combination among our customers, a reduction in orders or decrease in price from a significant customer or disruption in any of our commercial or distributor arrangements may result in a significant decline in our revenues and could have a material adverse effect on our business, liquidity, results of operations, financial condition and cash flows.

***We face competition and expect competition to increase in the future. If we fail to compete effectively, our revenue growth and results of operations will be materially and adversely affected.***

The global semiconductor market in general, and the semiconductor memory market in particular, are highly competitive. We expect competition to increase and intensify as other semiconductor companies enter our markets, many of which have greater financial and other resources with which to pursue technology development, product design, manufacturing, marketing and sales and distribution of their products. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could materially and adversely affect our business, revenue and operating results. Currently, our competitors range from large, international companies offering a wide range of traditional memory technologies to companies specializing in other alternative, specialized emerging memory technologies. Our primary memory competitors include Fujitsu, Infineon, Integrated Silicon Solution, Intel, Macronix, Microchip, Micron, Renesas, Samsung, and Toshiba. In addition, as the MRAM market opportunity grows, we expect new entrants may enter this market and existing competitors, including leading semiconductor companies, may make significant investments to compete more effectively against our products. These competitors could develop technologies or architectures that make our products or technologies obsolete.

Our ability to compete successfully depends on factors both within and outside of our control, including:

- the functionality and performance of our products and those of our competitors;
- our relationships with our customers and other industry participants;
- prices of our products and prices of our competitors' products;
- our ability to develop innovative products;
- our competitors' greater resources to make acquisitions;
- our ability to obtain adequate capital to finance operations;

- our ability to retain high-level talent, including our management team and engineers; and
- the actions of our competitors, including merger and acquisition activity, launches of new products and other actions that could change the competitive landscape.

Competition could result in pricing pressure, reduced revenue and loss of market share, any of which could materially and adversely affect our business, results of operations and prospects. In the event of a market downturn, competition in the markets in which we operate may intensify as our customers reduce their purchase orders. Our competitors that are significantly larger and have greater financial, technical, marketing, distribution, customer support and other resources or more established market recognition than us may be better positioned to accept lower prices and withstand adverse economic or market conditions.

***Our costs may increase substantially if we or our third-party manufacturing contractors do not achieve satisfactory product yields or quality.***

The fabrication process is extremely complicated and small changes in design, specifications or materials can result in material decreases in product yields or even the suspension of production. From time to time, we and/or the third-party foundries that we contract to manufacture our products may experience manufacturing defects and reduced manufacturing yields. In some cases, we and/or our third-party foundries may not be able to detect these defects early in the fabrication process or determine the cause of such defects in a timely manner. There may be a higher risk of product yield issues in newer STT-MRAM products.

Generally, in pricing our products, we assume that manufacturing yields will continue to improve, even as the complexity of our products increases. Once our products are initially qualified either internally or with our third-party foundries, minimum acceptable yields are established. We are responsible for the costs of the units if the actual yield is above the minimum set with our third-party foundries. If actual yields are below the minimum, we are not required to purchase the units. Typically, minimum acceptable yields for our new products are generally lower at first and gradually improve as we achieve full production, but yield issues can occur even in mature processes due to break downs in mechanical systems, equipment failures or calibration errors. Unacceptably low product yields or other product manufacturing problems could substantially increase overall production time and costs and adversely impact our operating results. Product yield losses may also increase our costs and reduce our gross margin. In addition to significantly harming our results of operations and cash flow, poor yields may delay shipment of our products and harm our relationships with existing and potential customers.

***The complexity of our products may lead to defects, which could negatively impact our reputation with customers and result in liability.***

Products as complex as ours may contain defects when first introduced to customers or as new versions are released. Delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of the products or result in a costly recall and could damage our reputation and adversely affect our ability to retain existing customers and attract new customers. Defects could cause problems with the functionality of our products, resulting in interruptions, delays or cessation of sales of these products to our customers. We may also be required to make significant expenditures of capital and resources to resolve such problems. We cannot assure our stockholders that problems will not be found in new products, both before and after commencement of commercial production, despite testing by us, our suppliers or our customers. Any such problems could result in:

- delays in development, manufacture and roll-out of new products;
- additional development costs;
- loss of, or delays in, market acceptance;
- diversion of technical and other resources from our other development efforts;
- claims for damages by our customers or others against us; and

- loss of credibility with our current and prospective customers.

Any such event could have a material adverse effect on our business, financial condition and results of operations.

***We may experience difficulties in transitioning to new wafer fabrication process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.***

We aim to use the most advanced manufacturing process technology appropriate for our solutions that is available from our third-party foundries. As a result, we periodically evaluate the benefits of migrating our solutions to other technologies to improve performance and reduce costs. These ongoing efforts require us from time to time to modify the manufacturing processes for our products and to redesign some products, which in turn may result in delays in product deliveries.

For example, as smaller line width geometry manufacturing processes become more prevalent, we intend to move our future products to increasingly smaller geometries to integrate greater levels of memory capacity and/or functionality into our products. This transition will require us and our third-party foundries to migrate to new designs and manufacturing processes for smaller geometry products.

We may face difficulties, delays and increased expense as we transition our products to new processes, and potentially to new foundries. We will depend on our third-party foundries as we transition to new processes. We cannot assure our stockholders that our third-party foundries will be able to effectively manage such transitions or that we will be able to maintain our relationship with our third-party foundries or develop relationships with new third-party foundries. If we or any of our third-party foundries experience significant delays in transitioning to new processes or fail to efficiently implement transitions, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, any of which could harm our relationships with our customers and our operating results.

***Changes to industry standards and technical requirements relevant to our products and markets could adversely affect our business, results of operations and prospects.***

Our products are only a part of larger electronic systems. All products incorporated into these systems must comply with various industry standards and technical requirements created by regulatory bodies or industry participants to operate efficiently together. Industry standards and technical requirements in our markets are evolving and may change significantly over time. For our products, the industry standards are developed by the Joint Electron Device Engineering Council, an industry trade organization. In addition, large industry-leading semiconductor and electronics companies play a significant role in developing standards and technical requirements for the product ecosystems within which our products can be used. Our customers also may design certain specifications and other technical requirements specific to their products and solutions. These technical requirements may change as the customer introduces new or enhanced products and solutions.

Our ability to compete in the future will depend on our ability to identify and comply with evolving industry standards and technical requirements. The emergence of new industry standards and technical requirements could render our products incompatible with products developed by other suppliers or make it difficult for our products to meet the requirements of certain of our customers in automotive, transportation, industrial, storage and other markets. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards and requirements. If our products are not in compliance with prevailing industry standards and technical requirements for a significant period of time, we could miss opportunities to achieve crucial design wins, our revenue may decline and we may incur significant expenses to redesign our products to meet the relevant standards, which could adversely affect our business, results of operations and prospects.

***Failure to protect our intellectual property could substantially harm our business.***

Our success and ability to compete depend in part upon our ability to protect our intellectual property. We rely on a combination of intellectual property rights, including patents, mask work protection, copyrights, trademarks, trade secrets and know-how, in the United States and other jurisdictions. The steps we take to protect our intellectual property rights may not be adequate, particularly in foreign jurisdictions such as China. Any patents we hold may not adequately protect our intellectual property rights or our products against competitors, and third parties may challenge the scope,

validity or enforceability of our issued patents, which third parties may have significantly more financial resources with which to litigate their claims than we have to defend against them. In addition, other parties may independently develop similar or competing technologies designed around any patents or patent applications that we hold. Some of our products and technologies are not covered by any patent or patent application, as we do not believe patent protection of these products and technologies is critical to our business strategy at this time. A failure to timely seek patent protection on products or technologies generally precludes us from seeking future patent protection on these products or technologies.

In addition to patents, we also rely on contractual protections with our customers, suppliers, distributors, employees and consultants, and we implement security measures designed to protect our trade secrets and know-how. However, we cannot assure our stockholders that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our customers, suppliers, distributors, employees or consultants will not assert rights to intellectual property or damages arising out of such contracts.

We may initiate claims against third parties to protect our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management. It could also result in the impairment or loss of portions of our intellectual property, as an adverse decision could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations. Additionally, any enforcement of our patents or other intellectual property may provoke third parties to assert counterclaims against us. Our failure to secure, protect and enforce our intellectual property rights could materially harm our business.

***We may face claims of intellectual property infringement, which could be time-consuming, costly to defend or settle, result in the loss of significant rights, harm our relationships with our customers and distributors, or otherwise materially adversely affect our business, financial condition and results of operations.***

The semiconductor memory industry is characterized by companies that hold patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. These companies include patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence. From time to time, third parties may assert against us and our customers' patent and other intellectual property rights to technologies that are important to our business. We have in the past, and may in the future, face such claims.

Claims that our products, processes or technology infringe third-party intellectual property rights, regardless of their merit or resolution, could be costly to defend or settle and could divert the efforts and attention of our management and technical personnel. We may also be obligated to indemnify our customers or business partners in connection with any such litigation, which could result in increased costs. Infringement claims also could harm our relationships with our customers or distributors and might deter future customers from doing business with us. If any such proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products, processes or technology;
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products, processes or technology, which may not be successful;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- cross-license our technology to a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; or
- pay substantial damages to our customers to discontinue their use of or to replace infringing technology sold to them with non-infringing technology, if available.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations. Furthermore, our exposure to the foregoing risks may also be increased if we acquire other companies or technologies. For example, we may have a lower level of visibility into the development process with respect to intellectual property or the care taken to safeguard against infringement risks with respect to the acquired company or technology. In addition, third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to the acquisition.

***We make significant investments in new technologies and products that may not achieve technological feasibility or profitability or that may limit our revenue growth.***

We have made and will continue to make significant investments in research and development of new technologies and products, including new and more technically advanced versions of our MRAM technology.

Investments in new technologies are speculative and technological feasibility may not be achieved. Commercial success depends on many factors including demand for innovative technology, availability of materials and equipment, selling price the market is willing to bear, competition and effective licensing or product sales. We may not achieve significant revenue from new product investments for a number of years, if at all. Moreover, new technologies and products may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced historically or originally anticipated. Our inability to capitalize on or realize substantial revenue from our significant investments in research and development could harm our operating results and distract management, harming our business.

***Our success depends on our ability to attract and retain key employees, and our failure to do so could harm our ability to grow our business and execute our business strategies.***

Our success depends on our ability to attract and retain our key employees, including our management team and experienced engineers. Competition for personnel in the semiconductor memory technology field, and in the MRAM space in particular, is intense, and the availability of suitable and qualified candidates is limited. We compete to attract and retain qualified research and development personnel with other semiconductor companies, universities and research institutions. Given our experience as an early entrant in the MRAM space, our employees are frequently contacted by MRAM startups and MRAM groups within larger companies seeking to employ them. The members of our management and key employees are at-will. If we lose the services of any key senior management member or employee, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely impact our business and prospects. The loss of the services of one or more of our key employees, especially our key engineers, or our inability to attract and retain qualified engineers, could harm our business, financial condition and results of operations.

***We currently maintain, and are seeking to expand operations outside of the United States which exposes us to significant risks.***

The success of our business depends, in large part, on our ability to operate successfully from geographically disparate locations and to further expand our international operations and sales. Operating in international markets requires significant resources and management attention and subjects us to regulatory, economic and political risks that are different from those we face in the United States. We cannot be sure that further international expansion will be successful. In addition, we face risks in doing business internationally that could expose us to reduced demand for our products, lower prices for our products or other adverse effects on our operating results. Among the risks we believe are most likely to affect us are:

- difficulties, inefficiencies and costs associated with staffing and managing foreign operations;
- longer and more difficult customer qualification and credit checks;
- greater difficulty collecting accounts receivable and longer payment cycles;
- the need for various local approvals to operate in some countries;
- difficulties in entering some foreign markets without larger-scale local operations;

- compliance with local laws and regulations;
- unexpected changes in regulatory requirements, including the elimination of tax holidays;
- reduced protection for intellectual property rights in some countries;
- adverse tax consequences as a result of repatriating cash generated from foreign operations to the United States;
- adverse tax consequences, including potential additional tax exposure if we are deemed to have established a permanent establishment outside of the United States;
- the effectiveness of our policies and procedures designed to ensure compliance with the Foreign Corrupt Practices Act of 1977 and similar regulations;
- fluctuations in currency exchange rates, which could increase the prices of our products to customers outside of the United States, increase the expenses of our international operations by reducing the purchasing power of the U.S. dollar and expose us to foreign currency exchange rate risk if, in the future, we denominate our international sales in currencies other than the U.S. dollar;
- new and different sources of competition; and
- political and economic instability, and terrorism.

Our failure to manage any of these risks successfully could harm our operations and reduce our revenue.

***To comply with environmental laws and regulations, we may need to modify our activities or incur substantial costs, and if we fail to comply with environmental regulations, we could be subject to substantial fines or be required to have our suppliers alter their processes.***

The semiconductor memory industry is subject to a variety of international, federal, state and local governmental regulations directed at preventing or mitigating environmental harm, as well as to the storage, discharge, handling, generation, disposal and labeling of toxic or other hazardous substances. Failure to comply with environmental regulations could subject us to civil or criminal sanctions and property damage or personal injury claims. Compliance with current or future environmental laws and regulations could restrict our ability to expand our business or require us to modify processes or incur other substantial expenses which could harm our business. In response to environmental concerns, some customers and government agencies impose requirements for the elimination of hazardous substances, such as lead (which is widely used in soldering connections in the process of semiconductor packaging and assembly), from electronic equipment. For example, the European Union adopted its Restriction on Hazardous Substance Directive which prohibits, with specified exceptions, the sale in the EU market of new electrical and electronic equipment containing more than agreed levels of lead or other hazardous materials and China has enacted similar regulations. Environmental laws and regulations such as these could become more stringent over time, causing a need to redesign technologies, imposing greater compliance costs and increasing risks and penalties associated with violations, which could seriously harm our business.

Increasing public attention has been focused on the environmental impact of electronic manufacturing operations. While we have not experienced any materially adverse effects on our operations from recently adopted environmental regulations, our business and results of operations could suffer if for any reason we fail to control the storage or use of, or to adequately restrict the discharge or disposal of, hazardous substances under present or future environmental regulations.

***Our business may be adversely impacted by natural disasters and other catastrophic events.***

Our operations and business, and those of our manufacturing partners, customers, distributors or suppliers, can be disrupted by natural disasters; industrial accidents; public health issues, such as the COVID-19 pandemic; cybersecurity incidents; interruptions of service from utilities, transportation, telecommunications, or IT systems providers; manufacturing equipment failures; or other catastrophic events. For example, some of our foundries and suppliers'



facilities in Asia are located near known earthquake fault zones and, therefore, are vulnerable to damage from earthquakes. We are also vulnerable to damage from other types of disasters, such as power loss, fire, floods and similar events. If any such natural disasters or other catastrophic events were to occur, our ability to operate our business could be seriously impaired. In addition, we may not have adequate insurance to cover our losses resulting from disasters or other similar significant business interruptions. Any significant losses that are not recoverable under our insurance policies could seriously impair our business and financial condition.

***Provisions of our credit facility may restrict our ability to pursue our business strategies.***

Borrowings under our existing credit facility are secured by substantially all of our assets, except for intellectual property. Additionally, the operating restrictions and covenants relating to our existing credit facility restrict, and any future financing agreements that we may enter into may further restrict, our ability to finance our operations, engage in business activities or expand or fully pursue our business strategies. For example, our existing credit facility prohibits our ability to, among other things:

- dispose of or sell assets;
- consolidate or merge with other entities;
- incur additional indebtedness;
- create liens on our assets;
- pay dividends;
- make investments;
- enter into transactions with affiliates; and
- redeem subordinated indebtedness.

These restrictions are subject to certain exceptions. In addition, our existing credit facility requires that we meet certain operating covenants, such as maintaining insurance on the collateral and meeting certain financial covenants, such as maintaining a minimum cash balance and availability under the Line of Credit. Our ability to comply with these covenants may be affected by events beyond our control, and we may not be able to meet those covenants. A breach of any of these covenants could result in an event of default under the credit facility. We are required to make mandatory prepayments of the outstanding loan upon the acceleration by lender following the occurrence of an event of default, along with a payment of the end of term fee, the prepayment fee and any other obligations that are due and payable at the time of prepayment. In the event of default, the interest rate in effect will increase by 5.0% per annum.

***Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.***

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income, and tax credits to offset future tax. As of December 31, 2019, we had federal net operating loss carryforwards of approximately \$131.8 million of which \$99.8 million will begin to expire in 2028 if not utilized, and \$32.0 million will carryover indefinitely. Subject to the recent California franchise tax law change affecting California state NOLs mentioned below, as of December 31, 2019, we had state net operating loss carryforwards of approximately \$50.2 million of which \$48.5 million will begin to expire in 2023 if not utilized, and \$1.7 million will carryover indefinitely. The federal NOLs generated in taxable years beginning prior to 2018 will continue to be governed by the NOL tax rules as they existed prior to the adoption of the changes in the tax laws that occurred in 2017, as amended by federal tax legislation enacted in March 2020, which means that generally they will expire 20 years after they were generated if not used prior thereto. The changes in the federal tax law that occurred in 2017, as amended by federal tax legislation enacted in March 2020, repealed the 20-year carryforward and two-year carryback of NOLs originating after December 31, 2017 (but for tax years beginning in 2018 through 2020 permits a



five-year carryback of NOLs) and also limits the NOL deduction to 80% of taxable income for tax years beginning after December 31, 2020. Any NOLs generated in taxable years beginning in 2018 and thereafter will be carried forward and will not expire. There is no current impact to us from the 2017 and 2020 federal tax law changes as we continue to be in a tax loss position for U.S. tax purposes. We may experience an ownership change in the future, and our ability to utilize our NOLs and tax credits could be further limited by Section 382 of the Code. Future changes in our stock ownership, many of which are outside of our control, could result in an ownership change under Section 382 of the Code. Our net operating losses and tax credits could also be impaired under state laws, including a recent California franchise tax law change limiting the usability of California state NOLs to offset taxable income in tax years beginning after 2019 and before 2023. As a result, we might not be able to utilize a material portion of our state NOLs and tax credits.

***If we fail to retain finance personnel and strengthen our financial reporting systems and infrastructure, we may not be able to timely and accurately report our financial results or comply with the requirements of being a public company, including compliance with the Sarbanes-Oxley Act and SEC reporting requirements.***

We have accounting and finance staff members to maintain the effectiveness of our closing and financial reporting processes. Any inability to retain such personnel would have an adverse impact on our ability to accurately and timely prepare our financial statements. We may be unable to locate and hire qualified professionals with requisite technical and public company experience when and as needed. In addition, new employees will require time and training to learn our business and operating processes and procedures. If our finance and accounting organization is unable for any reason to respond adequately to the demands of being a public company, the quality and timeliness of our financial reporting may suffer, which could result in the identification of material weaknesses in our internal controls. Any consequences resulting from inaccuracies or delays in our reported financial statements could cause the trading price of our common stock to decline and could harm our business, operating results and financial condition.

***Interruptions in our information technology systems could adversely affect our business.***

We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Any significant disruption to our systems or networks, including, but not limited to, new system implementations, computer viruses, security breaches, facility issues, natural disasters, terrorism, war, telecommunication failures or energy blackouts, could have a material adverse impact on our operations, sales and financial results. Such disruption could result in a loss of our intellectual property or the release of sensitive competitive information or supplier, customer or employee personal data. Any loss of such information could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by any such disruptions or security breaches. Additionally, any failure to properly manage the collection, handling, transfer or disposal of personal data of employees and customers may result in regulatory penalties, enforcement actions, remediation obligations, litigation, fines and other sanctions.

We may experience attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems. If attacks are successful, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. Any such attack or disruption could result in additional costs related to rebuilding of our internal systems, defending litigation, responding to regulatory actions, or paying damages. Such attacks or disruptions could have a material adverse impact on our business, operations and financial results.

Third-party service providers, such as wafer foundries, assembly and test contractors, distributors and other vendors have access to certain portions of our and our customers' sensitive data. In the event that these service providers do not properly safeguard the data that they hold, security breaches and loss of data could result. Any such loss of data by our third-party service providers could negatively impact our business, operations and financial results, as well as our relationship with our customers.

***Regulations related to "conflict minerals" may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.***

Pursuant to the Dodd-Frank Act, the SEC has adopted requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements require companies to perform diligence and disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. These requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products, and affect our costs and

relationships with customers, distributors and suppliers as we must obtain additional information from them to ensure our compliance with the disclosure requirement. In addition, we incur additional costs in complying with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we have not been able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free and these customers may discontinue, or materially reduce, purchases of our products, which could result in a material adverse effect on our results of operations and our financial condition may be adversely affected.

### **Risks Related to Our Common Stock**

*We expect that the price of our common stock will fluctuate substantially.*

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to many factors, including:

- the duration and severity of the COVID-19 pandemic and its effects on our business, financial condition, results of operations and cash flows;
- the introduction of new products or product enhancements by us or others in our industry;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, capital commitments or restructurings;
- disputes or other developments with respect to our or others' intellectual property rights;
- product liability claims or other litigation;
- quarterly variations in our results of operations or those of others in our industry;
- sales of large blocks of our common stock, including sales by our executive officers and directors;
- changes in senior management or key personnel;
- changes in earnings estimates or recommendations by securities analysts; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors, including those due to the duration and severity of the COVID-19 pandemic.

Stock markets generally have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, the semiconductor memory industry is highly cyclical and our markets may experience significant cyclical fluctuations in demand as a result of changing economic conditions, budgeting and buying patterns of customers and other factors. Fluctuations in our revenue and operating results could also cause our stock price to decline.

In addition, in the past, class action litigation has often been instituted against companies whose securities have experienced periods of volatility in market price, or for other reasons. Securities litigation brought against us following volatility in our stock price or otherwise, regardless of the merit or ultimate results of such litigation, could result in substantial costs, which would hurt our financial condition and operating results and divert management's attention and resources from our business.

These and other factors may make the price of our stock volatile and subject to unexpected fluctuation.

***Provisions in our corporate charter documents and under Delaware law could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our current management.***

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. Among others, these provisions include that:

- our board of directors has the right to expand the size of our board of directors and to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- our stockholders may not act by written consent or call special stockholders' meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders' meetings or special stockholders' meetings called by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors, the chairman of the board or the chief executive officer;
- our amended and restated certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the affirmative vote of holders of at least 66-2/3% of the voting power of all of the then outstanding shares of voting stock, voting as a single class, will be required (a) to amend certain provisions of our certificate of incorporation, including provisions relating to the size of the board, special meetings, actions by written consent and cumulative voting and (b) to amend or repeal our amended and restated bylaws, although such bylaws may be amended by a simple majority vote of our board of directors;
- stockholders must provide advance notice and additional disclosures to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company; and
- our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

***Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America will be the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

- any derivative action or proceeding brought on our behalf;

- any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee to us or our stockholders;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal-affairs doctrine.

This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These exclusive forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers and other employees. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could seriously harm our business.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In July 2020, we executed the first amendment to the 2019 Credit Facility with SVB. For additional information about the first amendment to the 2019 Credit Facility, see Part II, Item 5 of this report. In conjunction with entering into the amendment, on July 15, 2020, we issued a warrant to SVB to purchase 21,500 shares of our common stock at an exercise price of \$0.01 per share. The warrant expires on July 15, 2025. The warrant was issued in reliance on Section 4(a)(2) of the Securities Act in that it was issued to one sophisticated investor in a transaction not involving a public offering.

## **Item 3. Defaults Upon Senior Securities.**

None.

## **Item 4. Mine Safety Disclosures.**

Not applicable.

## **Item 5. Other Information.**

### **Item 1.01 Entry into a Material Definitive Agreement**

On July 15, 2020, the Company and SVB entered into a First Amendment to Amended and Restated Loan and Security Agreement (Amendment), which amended that certain Amended and Restated Loan and Security Agreement, dated as of August 5, 2019, by and between the Company and SVB. The Amendment amended the terms of the 2019 Credit Facility to (i) extend the initial 12 months interest-only period for the 2019 Term Loan to a 16 months interest-only period; (ii) lower the floor interest rates for 2019 Term Loan and the Line of Credit Facility from 4.75% and 6.75% to 3.75% and 4.75%, respectively; (iii) extend the 2019 Term Loan maturity date to June 1, 2023; (iv) remove the liquidity ratio financial covenant; (v) add a new minimum cash and availability covenant requiring the Company to maintain at all

times (tested as of the last day of each month) Cash and Availability (as defined in the Amendment) of at least \$11,000,000; and (vi) make certain other revisions to the terms of the 2019 Credit Facility as forth therein.

In conjunction with entering into the Amendment, on July 15, 2020, the Company issued a warrant to SVB to purchase 21,500 shares of the Company's common stock at an exercise price of \$0.01 per share. The warrant expires on July 15, 2025.

**Item 6. Exhibits**

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporation By Reference</u>			<u>Filing Date</u>
		<u>Form</u>	<u>SEC File No.</u>	<u>Exhibit/Reference</u>	
3.1	<a href="#">Amended and Restated Certificate of Incorporation</a>	8-K	001-37900	3.1	10/13/2016
3.2	<a href="#">Amendment to Amended and Restated Certificate of Incorporation</a>	8-K	001-37900	3.1	5/22/2019
3.3	<a href="#">Amendment to Amended and Restated Certificate of Incorporation</a>	8-K	001-37900	3.1	5/27/2020
3.4	<a href="#">Amended and Restated Bylaws</a>	8-K	001-37900	3.2	5/22/2019
4.1	<a href="#">Warrant to Purchase Common Stock, dated as of July 15, 2020, between the Company and Silicon Valley Bank</a>	10-Q	001-37900	4.3	8/6/2020
10.1	<a href="#">First Amendment to Amended and Restated Loan and Security Agreement, dated as of July 15, 2020, between the Company and Silicon Valley Bank</a>	10-Q	001-37900	10.3	8/6/2020
31.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				
31.2*	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				

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32.1**	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Everspin Technologies, Inc.

Date: November 5, 2020

By: /s/ Kevin Conley  
Kevin Conley  
President and Chief Executive Officer  
(Duly Authorized Officer and Principal  
Executive Officer)

Date: November 5, 2020

By: /s/ Daniel Berenbaum  
Daniel Berenbaum  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Certification of the Principal Executive Officer**

I, Kevin Conley, certify that:

1. I have reviewed this Form 10-Q of Everspin Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Kevin Conley

Kevin Conley

(Principal Executive Officer)

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**Certification of Principal Financial Officer**

I, Daniel Berenbaum, certify that:

1. I have reviewed this Form 10-Q of Everspin Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/Daniel Berenbaum  
Daniel Berenbaum  
Chief Financial Officer  
(Principal Financial Officer)

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Kevin Conley, President and Chief Executive Officer of Everspin Technologies, Inc. (the “Company”), and Daniel Berenbaum, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ Kevin Conley

Kevin Conley

*President and Chief Executive Officer  
(Principal Executive Officer)*

/s/ Daniel Berenbaum

Daniel Berenbaum

*Chief Financial Officer  
(Principal Financial Officer)*

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Everspin Technologies, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

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